Shropshire Council

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 23 July 2020
My Ref:
Your Ref:

Committee:
Audit Committee

Date: **Friday, 31 July 2020**
Time: **1.30 pm**
Venue: This is a Virtual Meeting.
PLEASE USE THE LINK ON THE AGENDA TO LISTEN TO THE MEETING

Members of the public will be able to listen to this meeting by clicking on this link:

Link to Audit Committee meeting

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You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Director of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee

Peter Adams (Chairman)
Ioan Jones
Chris Mellings
Brian Williams (Vice Chairman)
Michael Wood

Your Committee Officer is:
Michelle Dulson Committee Officer
Tel: 01743 257719
Email: michelle.dulson@shropshire.gov.uk

AGENDA

1 **Apologies for Absence / Notification of Substitutes**

2 **Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 **Minutes of the previous meeting held on the 25 February 2020** (Pages 1 - 10)

The Minutes of the meeting held on the 25 February 2020 are attached for confirmation.
Contact Michelle Dulson (01743) 257719.

4 **Public Questions**

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14.

5 **First line assurance : Digital Transformation Update** (Pages 11 - 18)

The report of the Director of Workforce and Transformation is attached.
Contact: Michele Leith (01743) 254402

6 **Second line assurance: Annual whistleblowing report** (Pages 19 - 24)

The report of the Director of Workforce and Transformation is attached.
Contact: Michele Leith (01743) 254402

7 **Third line assurance: Internal Audit Annual report 2019/20** (Pages 25 - 50)

The report of the Head of Audit is attached.
Contact: Ceri Pilawski (01743) 257739

8 **Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2019/20** (Pages 51 - 60)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

9 **Second line assurance: Financial outturn report 2019/20** (Pages 61 - 106)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

10 **Second line assurance: Approval of the Council's Statement of Accounts 2019/20** (Pages 107 - 314)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

11 **Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2019/20** (Pages 315 - 364)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

12 **Third line assurance: Annual Assurance report of Audit Committee to Council 2019/20** (Pages 365 - 380)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

13 **Third line assurance: External Audit: Audit fee letter** (Pages 381 - 388)

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

14 **Third line assurance: External Audit: Audit Plan update** (Pages 389 - 394)

The report of the Engagement Lead is attached.
Contact: Richard Percival (0121) 232 5434

15 **Third line assurance: External Audit: Informing the risk assessment** (Pages 395 - 432)

The report of the Engagement Lead is attached.
Contact: Richard Percival (0121) 232 5434

16 **Third line of assurance: External Audit: Audit progress report and sector update** (Pages 433 - 448)

The report of the Engagement Lead is attached.
Contact: Richard Percival (0121) 232 5434

17 **Third line assurance: External Audit: Pension fund audit plan 2019/20** (Pages 449 - 468)

The report of the Engagement Lead is attached.
Contact: Richard Percival (0121) 232 5434

18 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 17th September 2020 at 13:30 pm.

19 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

20 Exempt Minutes (Pages 469 - 472)

The Exempt Minutes of the meeting held on the 25 February 2020 are attached for confirmation.
Contact Michelle Dulson (01743) 257719

21 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 473 - 478)

The report of the Principal Auditor is attached.
Contact: Peter Chadderton (01743) 257737

Committee and Date
Audit Committee 31 July 2020

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 FEBRUARY 2020
1.30 - 5.00 PM

Responsible Officer: Michelle Dulson
Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present
Councillor Peter Adams (Chairman)
Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

66 **Apologies for Absence / Notification of Substitutes**

66.1 No apologies were received.

67 **Disclosable Pecuniary Interests**

67.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

68 **Minutes of the previous meeting held on the 5 December 2019**

68.1 **RESOLVED:**

That the Minutes of the meeting held on 5 December 2019 be approved and signed by the Chairman as a correct record.

69 **Public Questions**

69.1 No public questions had been received.

70 **First Line Assurance: Children's Direct Payments Update**

70.1 The Committee received the report of the Interim Assistant Director of Children's Social Care and Safeguarding – copy attached to the signed Minutes – which informed Members of the progress made to address the recommendations following a review of Children's Direct Payments.

70.2 The Interim Assistant Director of Children's Social Care and Safeguarding confirmed that the Action Plan would be circulated following the meeting. She informed the Committee that both an Interim Service Manager and a Short Breaks Reviewing Officer had been appointed. She drew attention to the progress made against the Action Plan and confirmed that only five actions remained outstanding.

70.3 The Interim Assistant Director of Children's Social Care and Safeguarding reported that development and implementation of the all age payment service was progressing and was being overseen on a bi-monthly basis by the Strategic Board.

70.4 The Committee thanked the Interim Assistant Director of Children's Social Care and Safeguarding for her report which gave them assurance that progress was being made. In response to a query, the Head of Audit confirmed that a follow up audit would be undertaken in 2020/21 once the Action Plan had been completed and was fully embedded.

70.5 In response to a query about overpayments, the Interim Assistant Director of Children's Social Care and Safeguarding explained that there would always be some element to recoup, but that it should be referred to as unused payments rather than overpayments. She was not aware how much was attributed to each Client as that was held in a separate account.

70.6 **RESOLVED:**

a) That Committee members note the review that took place on 15th January 2020 in relation to the recommendations made from the audit.

b) That Committee Members note the progress that has been made to address the recommendations since the last report to Cabinet.

71 **Second Line Assurance: Treasury Strategy**

71.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which proposed the Treasury Strategy for 2020/21 and recommended Prudential and Treasury Indicators for 2020/21 to 2022/23.

71.2 The Director of Finance, Governance and Assurance (Section 151 Officer) reported that the Treasury Strategy for 2020/21 had been approved by Cabinet on the 12 February 2020 and would be going to Full Council later that week. He referred to the recent Treasury Strategy training session for Members which had provided more detail. He explained that the Capital Strategy picked up non-treasury (investment) activities, which the Audit Committee could look at separately.

71.3 In relation to the Council's Housing Company, an exempt report had been considered by Full Council and delegated authority had been given to the Director of Finance, Governance and Assurance (Section 151 Officer) to make any necessary changes to the Treasury Strategy in relation to the Housing Company.

71.4 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that although the Audit Committees' responsibility for 'Scrutiny of Treasury Strategy' could be seen as an 'overview' instead, 'scrutiny' was the language used in the Code. In relation to a query about whether an external fund manager was to be appointed (Page 41), the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council had no intention of appointing any such manager but that it had the power to do so, should it wish and he gave an example of circumstances in which an external fund manager may be appointed.

71.5 In relation to PWLB borrowing, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that they used to be the cheapest source of funding but had increased their margin by 1% the previous year which had stifled the market so that other products became viable and PWLB became more expensive.

71.6 In response to a query about whether borrowing decisions were made in consultation with Cabinet or the Portfolio Holder with responsibility for Finance, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the vast majority of day to day borrowing decisions were delegated to the Section 151 Officer, with guidance and support from the Treasury Management Team and Asset Managers. Any decisions were then reported back to Committee. He stated that it was a dynamic process and that extra governance would slow the process down. He confirmed that decisions were made in line with the Treasury Management Code.

71.7 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the process of lending to AAA rated Money Market Funds. Members requested that the appropriate aspects of the Capital Strategy be considered at the next meeting of the Audit Committee.

71.8 **RESOLVED:**

a) That the Treasury Strategy 2020/21 be endorsed.

b) That the appropriate aspects of the Capital Strategy be considered at the next meeting of the Audit Committee.

72 Second Line Assurance: Strategic Risks Update

72.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which set out the current strategic risk exposure following the December 2019 quarterly review.

72.2 The Head of Audit reported that there were currently 17 strategic risks on the strategic risk register, which was an increase of one strategic risk relating to the effects of Climate Change, for which Adrian Cooper had been appointed Lead Officer and was in the process of completing the risk profile.

72.3 The Head of Audit confirmed that the Economic Growth Strategy risk had increased from low to medium due to the effects of Brexit on the economy being unknown at the time. The reputation risk had been reduced from high to medium however this had since been increased due to an emergency being announced within highways in relation to the number of potholes in the county. The risk score for Safeguarding Children had also been reduced from high to medium following the recruitment of more social workers.

72.4 In response to a query about the extent to which the skills capacity of the workforce were reflected in the strategic risks, the Head of Audit confirmed that this was considered and was embedded throughout the strategic risks. However, if it became an issue in itself it would become a separate strategic risk.

72.5 **RESOLVED:**

That the position as set out in the report be accepted.

73 Governance Assurance: Draft Audit Committee Annual Work Plan and Future Training Requirements

73.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for Members to ensure they were well informed and appropriately skilled to fulfil their role.

73.2 The Head of Audit informed the Committee that the only proposed change was for the Audit Committee and not Council to approve the final statement of accounts and accompanying documents at its meeting on 31 July 2020 (paragraph 6.3). If approved, the Audit Committee's Terms of Reference would be amended and a change to the Constitution sought.

73.3 The Head of Audit drew attention to paragraph 6.5 which set out those topics covered by training during 2019/20 and she confirmed that provisional dates for training during 2020/21 had been circulated to Members of the Committee. Suggested topics for training were set out in Appendix B whilst Appendix A summarised the Audit Committee Work Plan for 2020/21.

73.4 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that legislation required the accounts to be approved by a Committee of the Council and although up until now this had always been done by Council, due to the faster close down of the accounts, the Council would have to sit on the last day of July, which was not practicable. It was therefore easier for Audit Committee to sit at the end of July.

73.5 In response to a query about what the Committee would be approving as they could not make any changes to the accounts in any case, the External Auditor explained that there may be changes between the draft accounts and the final accounts. The Committee would have to take all information and External Audit findings into account and assess whether the accounts were correct (including any unadjusted misstatements).

73.6 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Financial Monitoring report would still be going to Council along with the outturn report. Audit Committee would report its' year end assurance in relation to Value for Money / Financial Sustainability to Full Council. The Committee were able to invite the Leader to attend the meeting when the accounts were being signed off.

73.7 **RESOLVED:**

a) That the Audit Committee work plan for 2020/21 be approved (Appendix A).

b) That a learning and development plan for Members of the Committee taking into account information in Appendices A and B be approved.

c) That delegation to the Director of Finance, Governance and Assurance (Section 151 Officer) to approve a revised Terms of Reference for the Audit Committee to incorporate approval of the Final Accounts Pack, including the Statement of Accounts for the financial year end with the Committee Chair and to seek formal delegation in the Constitution from Council for this activity to be approved.

74 Third Line Assurance: Report of the Audit Review of Risk Management

74.1 The Committee received the report of the Principal Auditor – copy attached to the signed Minutes – which summarised the detailed findings identified in the Internal Audit review of Risk Management. She informed the Committee that the overall control environment for the Risk Management system had been assessed as good, the highest rating that could be given and that no control weaknesses had been identified.

74.2 The Principal Auditor drew attention to paragraph 6.5 of the report which summarised the findings for each of the four control objectives for which full compliance had been achieved.

74.3 **RESOLVED:**

That the findings from the review of Risk Management by Internal Audit be endorsed.

75 Third Line Assurance: Internal Audit Performance Report and Revised Annual Audit Plan 2019/20

75.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of work undertaken by Internal Audit in the three months since the previous Audit Committee report.

75.2 The Head of Audit informed the Committee that 79% of the revised plan had been achieved, however the team were on target to deliver 90% of the plan by year end. She drew attention to performance against the plan 2019/20 set out on page 103. There had been minor revisions to the plan for a total of 2,217 days (compared to 2,250 days reported in December). In total, 18 final reports had been issued.

75.3 The Head of Audit drew Members' attention to the Audits completed since October, the Assurance levels awarded and the overall spread of recommendations set out in paragraphs 6.6, 6.7 and 6.8 respectively. Turning to paragraph 6.9, the Head of Audit reported that there had been 12 good or reasonable assurances accounting for 66% of the opinions delivered, which was a slight decrease compared to the previous year. This was offset by a corresponding increase in limited and unsatisfactory assurances up from 33% in the previous year to 34% this year.

75.4 The Head of Audit explained that one fundamental recommendation had been identified, which was detailed in paragraph 6.13 of the report including the response from management. Turning to Direction of Travel, the Head of Audit cautioned that the lower level assurances and the higher proportion of areas attracting unsatisfactory and limited assurances were an early indication of a weakening control environment.

75.5 A brief discussion ensued in relation to the control environment in which Members expressed their concerns. In response, the Head of Audit stated that although it was a concern, she needed to see what happened in the last quarter before deciding on her opinion. In response to a query about why processes were not being followed, the Head of Audit explained that it was not just around supply contracts but arrangements for compliance checks and managing contracts going forward.

75.6 The Director of Finance, Governance and Assurance (Section 151 Officer) acknowledged that this was a risk but that any areas of non-compliance were reported directly to the Chief Executive. In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Commissioning and Assurance Board had been set up two years ago to monitor strategic risks in relation to contract management. He explained that staff had been trained and were aware of their responsibilities in these areas and that there was oversight by senior officers.

75.7 Members requested more information around Contracts to be presented to a future meeting of the Committee.

75.8 **RESOLVED:**

a) That the performance to date against the 2019/20 Audit Plan set out in this report be endorsed and that the action to be taken by the Audit Committee in response to the low assurance levels and fundamental recommendations as detailed in the report, be noted.

b) That the adjustments required to the 2019/20 plan as reported in paragraph 6.3 of the report to take account of changing priorities set out in **Appendix B** be endorsed.

c) That the Committee's concerns about the adverse Direction of Travel be noted.

76 Third Line Assurance: Draft Annual Internal Audit Risk Based Plan 2020/21

76.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with the proposed risk based Internal Audit Plan for 2020/21. The Head of Audit drew attention to the summarised Internal Audit Plan set out at Appendix A which confirmed that 1,794 days had been planned for Shropshire Council audit work and 171 days for external clients.

76.2 The Head of Audit also drew attention to Appendix B, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan along with areas requested by managers for which no provision had been made. The Head of Audit confirmed that the Audit Committee may seek assurances from management on any areas for which they were concerned.

76.3 The Head of Audit explained that Appendix C showed those low risk areas that would not be considered for review by Internal Audit on a rolling basis but again, the Committee may seek assurances from management on any areas of concern.

76.4 In response to a query about whether an internal audit of the Flood Risk Management Arrangements and the WSP Contract would be undertaken this year, the Head of Audit explained that audits of these areas would not be undertaken until 2020/21 but that the Committee could ask management to provide assurance.

76.5 **RESOLVED:**

That the approach taken to create the proposed Internal Audit Plan for 2020/21 be endorsed and that its adoption be approved.

77 **Third Line Assurance: External Audit, Audit Progress Report and Sector Update**

77.1 The External Auditor gave a verbal update on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

77.2 The External Auditor informed the Committee that the 2019/20 audit had begun, it had been a slow start due to the time taken to agree the 2018/19 fees, which had now been agreed at £12K. The External Auditor confirmed that the first visit of the 2019/20 audit had been completed and that the next one was due to begin on 9 March for two weeks.

77.3 **RESOLVED:**

That the contents of the update be noted.

78 **Third Line Assurance: External Audit, Audit Plan**

78.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Committee with the proposed external audit plan for 2019/20 for consideration and approval.

78.2 The External Auditor drew attention to the implementation off the new financial ledger (ERP) which had been identified as a significant risk to the presentation of the accounts. External Audit were keen for the Council to work to cleanse the data in order to reduce the amount of work for the Council in terms of evidence.

78.3 Turning to materiality, the External Auditor reported that this had reduced from £11m to £8m and she explained that any body with a turnover of £½b could not have materiality higher than 1.5% and this was applied consistently across their clients.

78.4 The External Auditor explained the impact of International Financial Reporting Standard (IFRS) 16 in relation to Leases and how these must be disclosed from April 2020 which would impact on next years' accounts as there would be revenue implications which would need to feed into budgets.

78.5 The risk assessment regarding the Council's Value for Money arrangements had not yet been finalised. Two areas of risk identified were the Council's Financial Strategy for 2024/25 and the operational challenges for Children's Services.

78.6 The External Auditor reported that there was a risk that the audit would not be completed by the end of July target. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council had a responsibility to produce draft accounts by the 31 May and then to have them audited by the 31 July. It would be a problem if they were not approved. The External Auditor confirmed that it was a risk but that the Council's Engagement Lead would report back to the Council if he felt that the target would not be achieved, and in that event, a contingency date would be agreed.

78.7 Finally, the External Auditor drew attention to the audit fee set out on page 16 of the report which had been set at £126,561 an increase of £22,000 from the scale fee that had been set. This increase had been agreed by the Director of Finance, Governance and Assurance (Section 151 Officer) and was subject to PSAA agreement.

78.8 **RESOLVED:**

a) That the draft Audit Plan for 2019/20, attached at Appendix 1 be approved.

b) That the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan be approved.

79 Third Line Assurance: External Audit, Informing the Risk Assessment

79.1 **RESOLVED:** That this item be deferred to the next meeting.

80 Date and Time of Next Meeting

80.1 Members were reminded that the next meeting of the Audit Committee would be held on Thursday 25 June 2020 at 1.30pm.

81 Exclusion of Press and Public

81.1 **RESOLVED:**

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

82 Exempt Minutes of the previous meeting held on the 5 December 2019 (Exempted by Categories 1, 2, 3, 5 and 7)

82. **RESOLVED:**

That the exempt minutes of the meeting held on 5 December 2019 be approved and signed by the Chairman as a correct record.

83 First Line Assurance: Highways Term Maintenance Update (Exempted by Category 5)

83.1 The Committee received the exempt report of the Director of Place and Enterprise – copy attached to the signed Minutes – which provided Members with an update on progress of the Action Plan following the audit undertaken to review payment mechanisms for the Highways Term Maintenance Contract.

83.2 **RESOLVED:**

That the recommendation contained in the report be approved.

84 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3 and 7)

84.1 The Committee received the exempt report of the Principal Auditor - copy attached to the exempt signed Minutes - which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

84.2 **RESOLVED**

That the contents of the report be noted.

Signed .... (Chairman)

Date: ....

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Committee and Date	Item
AUDIT COMMITTEE 31st JULY 2020	 Public

Digital Transformation Update

Responsible Officer: Michele Leith
e-mail: michele.leith@shropshire.gov.uk **Tel:** 01743 254402

1.0 Summary

1.1 The Audit Committee has received regular updates throughout the period of digital transformation. This report represents the culmination of the original four projects in the programme. This is not the end of the transformation journey, but it is a natural review point as to what further developments are required to continue the massive improvements in how we operate in the current uncertain environment.

1.2 Business World (ERP) has been live now since April 2019, most issues that were present at the launch have been resolved. Those that remain, some of which are technical, are scheduled to be resolved before the main contract with Methods ends in August.

1.3 Liquid Logic Adults and Children's modules were successfully launched are embedded into Social Work practice. More modules are being developed to further enhance system effectiveness.

1.4 Customer Experience Project, the Customer Relationship platform has greatly enhanced our capacity to reach the customer, through the telephony system and through MyShropshire.

1.5 Infrastructure & Architecture (I&A), and the projects under the umbrella of I&A, have underpinned all the DTP achievements and contributed enormously to our ability to work remotely, maintain safe and secure networks and to support the residents of Shropshire, especially the vulnerable, through the Covid-19 crisis to date.

2.0 Recommendations

2.1 The Audit Committee is asked to consider and approve with appropriate comment the content of this report.

REPORT

3.0 Background

3.1 Shropshire's ICT Digital Transformation Programme was approved by Council in July 2016. This programme had the stated desire to deliver services at the highest quality and lowest cost compared to other authorities in everything that it does. This included transforming IT systems, reshaping services and 'back office' functions, reducing costs, removing duplication, improving efficiency, reducing business continuity risk and enabling more effective service delivery across a rural geography.

3.2 Four project boards, were put in place to deliver the Digital Transformation Programme, covering the following areas:

- Enterprise Resource Planning (ERP) – Replacing legacy systems for Finance, HR and Payroll
- Customer Experience – Customer Relationship Management (CRM) and Call Centre solutions
- Liquid Logic (LL) – New Social Care solution for both Adults and Children's
- Infrastructure & Architecture (I&A) – Including improvements to Business Continuity/Disaster Recovery arrangements, Wi-fi, Data management, Document management, Agile working tools, Print management, Integration and reduction of applications.

3.3 The 'Digital Transformation Programme - Business Case Review/Benefits Realisation' paper considered by Performance Management Scrutiny Committee on 13th November 2019 detailed the original savings ambitions of the programme and the achievements made between 2016 to 2019.

3.4 The report went on to explain that, given the scale of the savings still to be delivered, the whole organisation needed to embrace and utilise the digital tools available to them to truly transform how the Council operates. Cashable savings were expected to come from:

- Enabling customers to do more for themselves online, reducing council workload
- Stripping out waste and non-value added activity from processes
- Improving productivity and releasing capacity in the organisation through the reallocation of work, workforce optimisation and better workforce practices (including Smart/Agile working supported by technology, enabling staff to be flexible, adaptable and responsive to change whilst reducing the reliance on office space)

3.5 One of the main benefits of the Digital Transformation programme, which could be considered less interesting but still vital in terms of what was to come with the pandemic, has been the fixing of legacy infrastructure, assets and process issues in terms of the ICT provision. Specific changes include:

- The training and implementation of the best practice IT management methodology of ITIL, for which the department recently won a national award praising their approach to continuous improvement
- The upgrading and proper implementation of a service desk tool (with a much-improved self-service portal soon to be added for staff and customers)
- The use of the customer service centre call and contact handling software, again professionalising the service as it was recognised the need to support staff digitally is vital
- The introduction of an integration hub to move the authorities (and external) data assets safely and securely between systems, including the ability to populate a data-warehouse for advanced reporting including predictive analytics and the use of artificial intelligence (AI)
- An improved project management and business analysis function to work through processes fully, leaving details of the changes for others to use in the future, supporting the move to a model of Continuous Service Improvement (CSI) for the authority
- The team also worked to deliver the foundations for supporting the ambitions of the 2020-2021 Workforce Digital Strategy (WDS), creating a methodology, work programme, Governance structure, team and processes for introducing tools such as Microsoft Teams with SharePoint and other, now vital, digital services
- An investment in our data centre to create a hybrid cloud and on-premise model for managing our infrastructure gave considerable control in terms of the upscaling and cost of our needs, saving what is likely to be notable sums compared to migrating fully to the cloud. This option was chosen after extensive investigations into the potential solutions found that a fully cloud service would have been considerably more expensive for Shropshire Council compared to the chosen hybrid model

4.0 Impact of Global Pandemic

4.1 We could not have known it at the time of that report, but the global Coronavirus pandemic that required staff and customers to stay at home from March 2020, required us to rapidly deploy technology solutions to ensure business continuity.

4.2 Although it can be noted the timing was more luck than strategic judgement (as few predicted the Covid-19 pandemic), the foundations that were set through the Digital Transformation Programme (DTP) and in preparation for delivering the commitments in the Workforce Digital Strategy (WDS) put us as Shropshire Council in a very strong position to respond digitally to Covid-19. Investments in our hybrid solution for infrastructure, our approach to managing IT issues with the best practice management methodology of ITIL and introductions of tools such as Microsoft Teams & PowerBi, all supported the authority to respond at pace to the rapidly evolving needs of the authority's staff and those we serve.

4.3 Our investment in digital transformation over the last few years meant that the move to a virtual workforce was achieved with minimal disruption . Approximately 2,600 members of staff and our elected Members were enabled to work from home within five working days. Prior to the crisis, the usual daily 'working remotely' figure was in the region of 500 – 600 people.

4.4 The additional online traffic generated by more than 2,000 home workers has been met with an additional external cost of just £18,000, to date. It is important to note, this transition would not have been possible without the dedicated internal ICT team who have benefitted from the transformation programme with new skills and enabling technologies. These skills have benefitted both Shropshire Council and many of our partners as the authority works closely with the local NHS, sharing assets and knowledge to improve services.

4.5 Use of digital tools have been fundamental to business continuity during the crisis, with staff embracing technology now available to them to work in a different way (e.g. virtual meetings via MS Teams). Comparing January to April 2020, the uptake in these tools was stark:

Office 365 Technology	**Jan 20**	**Apr 20**
MS Teams – Active users	900	2,500
MS Teams – Meeting Participants	131	1,988
One Drive – Active users	964	1,576
SharePoint – Active users	1,345	2,414
Email – Average P/P Sent, Rec'd, Read	1,244	1,713

4.6 The potential financial benefits in the way that staff have been working since March are considerable, with activity and costs down in the following areas:

- Reduced Staff Mileage Claims – Claims down by 49% in the period April to June 2020, compared to the same months in 2019 (down from £339,952 in 2019 to £172,071 in 2020 – both figures include externally funded expenditure).

- Reduced Staff Travel costs (e.g. bus, train, parking etc) - Claims down by 85% in the period April to June 2020, compared to the same months in 2019 (down from £37,308 in 2019 to £5,707 in 2020 – both figures include externally funded expenditure)

- Although less easy to calculate, the time saved travelling to and from meetings will be of note – particularly when the geographic area of the county is considered

- Reduced Printing/Copier costs – Copy volumes are down from 2 million copies in March 2019 to 752,000 in March 2020. Print volumes will have dropped significantly further during April and May 2020 with staff away from offices.

- Reduced Accommodation costs - Shropshire Council has the capacity to accommodate 2,010 members of staff in its 18 key office buildings. The three largest buildings are Shirehall, Mount McKinley and Ptarmigan. Prior to the crisis, these three buildings accommodated 1,380 people and cost £1.36m per year to run. In July 2020, Council took the decision to develop a new, smaller, more cost-efficient civic hub to replace the Shirehall by 2023. One of the key reasons that this move has been possible is the development and use of technology by staff to work from home and in the community, meaning less office space is required.

- With a shift to digital mailroom we are beginning to understand the post requirements, both incoming and outgoing, and are working towards reductions in these areas. A notable immediate difference is the efficiency of the mass scanning of incoming post using an industrial machine as this saves staff time in the scanning of documents.

- Year-on-year cost savings as a result of home working (supported by digital) these figures cover the whole of the corporate landlord estate:

Electricity Costs

	2019	**2020**
April	£81k	£51k
May	£77k	£48k

Gas Costs

	2019	**2020**
April	£26k	£12k

4.7 Further work is underway to fully understand the sustainability of home and community-based working and the financial and productivity benefits that this brings. Feedback from the recent Staff Survey confirmed that:

- 68% of staff using online tools/phone to contact people they would usually have visited.
- 87% of staff have the technology to work from home
- 86% of staff said technology has been useful in allowing them to work differently.
- 87% said they are able to collaborate with others online
- 69% are overall positive about IT access
- 67% said the experience of meetings and interactions this way was positive.

4.8 This feedback points to a huge shift in employee's use and experience of using our new digital tools. It also means that staff are spending less time travelling to face to face meetings, thereby saving on both the cost of travel and gaining additional time back. If we had not had the IT infrastructure and tools available during the pandemic then productivity would have been significantly, negatively impacted and therefore unable to work as effectively as the organisation has done over the last 4 months.

4.9 A final notable shift has been the adoption of technologies we hoped to introduce over the coming years that have been adopted at considerable pace. PowerBi, the Microsoft business intelligence tool, is a notable example of a technology a handful of staff were using that has become a staple of our working worlds. A notable example has been the use of PowerBi to present current data on PPE stocks for the Shropshire, Telford and Wrekin Health and Social Care system – an implementation that was much needed and applauded for its pace and abilities.

5.0 Staff Wellbeing

5.1 Due to COVID 19 lockdown, the plans for Mental Health Awareness week (w/c 18th May) were reviewed and the focus turned to supporting staff using technology. Webinars relating to stress management were rolled out to staff by Shropshire MIND. Computer lock screens were used to promote internal support services, including Occupational Health and access to counselling support. The staff intranet wellbeing pages with Frequently Asked Questions were updated.

5.2 Weekly live guided meditation sessions on Microsoft Teams from 30th April 2020. Between 11 and 21 staff have attended these sessions. The first of a series of recorded sessions is now available to download from the newly created section on Wellbeing page specifically related to wellbeing ideas to help support during Covid-19.

5.3 Weekly podcasts were delivered from one of the Mental Health First Aiders covering mental health topics such as anxiety and depression and a recent Q&A session - all geared towards support during lockdown. Ten podcasts have been recorded. As of 1st June, 58 staff have accessed these podcasts.

5.4 Instructor Live website was made available free to staff from end of April 2020 – to date 94 staff members have signed up. This includes health and fitness videos and support.

6.0 Financial Implications

6.1 The original budgets set out in the 18th May 2017 Council paper, DTP did not spend £3,000,000 and there remains a small amount of contingency funding

7.0 Climate Change Appraisal

7.1 The impact of the DTP programme has the ability to considerably reduce our use of resources (paper, fuel, energy) and so if we continue to build on our lockdown experience and permanently change behaviour, it will be a significant contribution to our carbon reduction target.

8.0 Conclusions

8.1 Without the investments made in technology since 2016, Shropshire Council would not have been able to function as effectively from 23rd March 2020 when the lockdown began.

8.2 Using the technology and our data assets, we were able to develop important data sets quickly, allowing teams to respond at pace to the needs of the most vulnerable in our communities. The investment also enabled the authority's democratic process to continue, with meetings including Full Council moving to online platforms and allowing .

8.3 The investments made in our digital infrastructure, staff, training and applications made it possible for us keep frontline and support services working remotely, and under incredible pressures. Full credit should be given to every member of staff across the authority who not only addressed the needs of those we serve professionally and with great compassion, staff worked to adopt technology at pace to ensure they could continue to support those in need. These have been difficult times for everyone, but the pace of change cannot be underestimated and staffs willingness, often eagerness, to adopt technology in order to help those we serve has been admirable and should be recognised at every opportunity.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Digital Transformation Programme - Business Case Review/Benefits Realisation 13th November 2019
Cabinet Member (Portfolio Holder) Councillor Lee Chapman
Local Member N/A
Appendices None

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Shropshire Council

Committee and Date	Item
Audit Committee 31st July 2020	6

2019/2020 Review of Whistleblowing - 'Speaking Up About Wrongdoing'

Responsible Officer Michele Leith, Director of Workforce & Transformation
e-mail: Michele.leith@shropshire.gov.uk Tel: 01743 254402

1. Summary

The Whistleblowing process provides arrangements to enable employees, elected members, contractors and others to raise concerns about fraud, corruption, adult/child protection or harassment and bullying allegations.

This report provides an update to the Shropshire Council Audit Committee on the number of cases raised regarding Council employees over the last year (excluding school-based employees).

2. Recommendations

The Audit Committee is asked to:

a. Consider and approve, with appropriate comments on the contents of the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Council has in place an effective Counter Fraud, Bribery and Anti-Corruption Strategy. The Council proactively encourages the detection of fraud and irregularities and the appropriate management of them. The Whistleblowing policies contribute to our zero tolerance of fraud, bribery and corruption.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

4.1 The management and investigation of issues raised in response to this policy are met from approved budgets.

5. Background

5.1 This is an annual report to Audit Committee on whistleblowing arrangements.

5.2 The Whistleblowing Policy is available to all staff via the Intranet pages and is also available to them, along with members, contractors, partners and the public, via the website; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

5.3 Whistleblowing is when a worker reports suspected wrongdoing at work. Officially this is called 'making a disclosure in the public interest'. A worker can report things that aren't right, are illegal or if anyone at work is neglecting their duties, including:

- someone's health and safety is in danger
- damage to the environment
- a criminal offence
- the company isn't obeying the law (like not having the right insurance)
- covering up wrongdoing.

5.4 The way a worker can 'blow the whistle' on wrongdoing depends on whether they feel they can tell their employer.

1. The worker should check their employment contract or ask Human Resources if their company has a whistleblowing procedure.
2. If they feel they can, they should contact their employer about the issue they want to report.
3. If they can't tell their employer, they should contact a prescribed person or body.

5.5 A worker can only tell the prescribed person or body if they think their employer:

- will cover it up
- would treat them unfairly if they complained
- hasn't sorted it out and they've already told them

5.6 Dismissals and whistleblowing

A worker can't be dismissed because of whistleblowing. If they are, they can claim unfair dismissal. They'll be protected by law as long as certain criteria are met.

5.7 Types of whistleblowing eligible for protection

These are called 'qualifying disclosures'. They include when someone reports:

- that someone's health and safety is in danger
- damage to the environment
- a criminal offence
- that the company isn't obeying the law (like not having the right insurance)
- that someone's covering up wrongdoing
- a miscarriage of justice

5.8 Who is protected?

The following people are protected:

- employees
- agency workers
- people that are training with an employer, but not employed
- self-employed workers, if supervised or working off-site

An individual is also protected if they work in a school or sixth-form college, whether an employee or an agency worker. NHS workers who work under certain contractual arrangements, e.g. certain GPs and dentists, are also protected.

A worker will be eligible for protection if:

- they honestly think what they're reporting is true
- they think they're telling the right person
- they believe that their disclosure is in the public interest

5.9 Who isn't protected?

Workers aren't protected from dismissal if:

- they break the law when they report something, e.g. they signed the Official Secrets Act
- they found out about the wrongdoing when someone wanted legal advice ('legal professional privilege'), e.g. if they're a solicitor

Workers who aren't employees can't claim unfair dismissal because of whistleblowing, but they are protected and can claim 'detrimental treatment'.

5.10 Tribunals

Workers dismissed for whistleblowing can go to an employment tribunal. If the tribunal decides the employee has been unfairly dismissed, it will order that they are:

- reinstated (get their job back)

- paid compensation

A tribunal judge can reduce any compensation awarded by 25% if they find the person has acted dishonestly.

A whistleblower who is bullied at work will also be able to bring a claim to the employment tribunal against their employer or colleagues.

6. 2019/20 Whistleblowing Reports

In 2019/20, there were twenty cases reported under the whistleblowing arrangements for Shropshire Council. Eleven cases resulted in 'No case to answer' and nine resulted in being referred to another agency or service to look into which resulted in 'not enough evidence to proceed' or 'dealt with under another policy'. Details on the allegations received and outcomes are shown below.

2019/20 Whistleblowing Reports

Route in	Allegation	Procedure used	Outcome
Written	Property Issues	No Investigation - Complaint	NCTA[1]
Verbal	Council House Rental	Management Investigation	NCTA
Verbal	Housing Benefit Fraud	Audit Investigation	Passed to SFIS[2]
Verbal	Housing Benefit Fraud	Audit Investigation	Housing Benefits reassessed claim
Verbal	Potential Sub-letting – Non-Council Property	No Investigation	Passed to third party
Written	Corruption/Failure of Contract Management	Audit Investigation	Management report issued to address areas of concern. NCTA.
Verbal	Phonics screening Test Malpractice	Management Investigation	Referred to STA[3] Disciplinary action to be considered when report received
Written	Inappropriate Behaviour	Management Investigation	Passed to Human Resources
Verbal	Safeguarding Allegations – Adult	Safeguarding	Case with Safeguarding
Verbal	Housing Benefit Fraud	Audit Investigation	Passed to SFIS
Verbal	Theft	No Investigation	Reported to the Police
Verbal	Housing Benefit Fraud	Audit Investigation	Passed to SFIS - NCTA
Verbal	Housing Benefit Fraud	Audit Investigation	NCTA
Written	Council Tax Fraud	Management Investigation	NCTA
Written	Highways Road Markings	Management Investigation	NCTA
Written	Inappropriate Behaviour	Management Investigation	NCTA

[1] NCTA – No Case to Answer
[2] SFIS – Single Fraud Investigation Service (Part of Department of Work and Pensions (DWP))
[3] STA – Standards and Testing Agency (Part of Department for Education)

Route in	Allegation	Procedure used	Outcome
Verbal	Council Tax Fraud	Management Investigation	NCTA
Verbal	Housing Benefit Fraud	Management Investigation	NCTA
Verbal	Property Issues	Audit Investigation	NCTA
Verbal	Harassment	Safeguarding	Case with Safeguarding

[1] NCTA – No Case to Answer
[1] SFIS – Single Fraud Investigation Service (Part of Department of Work and Pensions (DWP))
[1] STA – Standards and Testing Agency (Part of Department for Education)

7. Comparison to previous years

7.1 There has been a 39% decrease in number of incidents reported than in the preceding years, with the preferred route of "blowing the whistle" being verbal compared to written. This is a common theme we have witnessed over the last two years. In 2018/19 there were 33 cases reported and most of those allegations were relating to finance abuse, planning, housing and fraud. In 2017/18 there were 16 allegations mainly relating fraud and theft and the preferred route of "blowing the whistle" again being verbal.

7. Conclusion

7.1 The 'Speaking up about Wrongdoing' process forms a key element of the Council's Corporate Governance arrangements and is continuing to be a route employees use to raise concerns, as well as a route which is also open to elected members, contractors, partners and others.

List of background papers (This MUST be completed for all reports but does not include items containing exempt or confidential information) – None
Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter Adams (Chair of Audit Committee)
Local Member- N/A

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Committee and Date	Item
Audit Committee 31st July 2020 13:30pm	 Public

INTERNAL AUDIT ANNUAL REPORT 2019/20

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 257739

1 Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2020. It informs on delivery against the approved annual audit plan and includes the Head of Audit's opinion on the Council's internal controls, as required by the Public Sector Internal Audit Standards (PSIAS). This in turn, contributes to delivering the Accounts and Audit Regulations 2015 requirement to have internal audit, '*evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'.

Final performance has been good with the revised plan being delivered above the 90% delivery target, in compliance with the Public Sector Internal Audit Standards and to the satisfaction of customers. Forty-six good and reasonable assurances were made in the year accounting for 64% of the opinions delivered. This represents a 3% decrease in the higher levels of assurance compared to the previous year, offset by a 3% increase in limited and unsatisfactory opinions.

Based on the Internal Audit work undertaken and management responses received; I can offer ***limited assurance*** for the 2019/20 year that the Council's framework for governance, risk management and internal control is sound and working effectively.

There are an increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate, but discrete parts of the system of internal control remain unaffected. In addition to which, the response to the Coronavirus pandemic has led to scope limitations which restricts the independent assurances provided on the key systems that have undergone fundamental changes during the year. Where systems have been evaluated to a draft stage, assurances remain low. Management of Coronavirus has introduced unprecedented pressures and responses. Managers have been diverted onto business continuity pressures and unable to plan improvements to known internal control processes, leading to increased risks in some areas that will impact on delivery of the Council's objectives. 2019/20 has been a challenging year given the embedding of key fundamental line of business systems (financial and human resources) alongside the challenge to deliver savings, increase income and respond to Coronavirus.

2 Recommendations

The Committee is asked to consider and endorse, with appropriate comment;

a) Performance against the Audit Plan for the year ended 31 March 2020.

b) That Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, considering public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2019/20.

c) The Head of Audit's ***limited assurance,*** year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2019/20 based on the work undertaken and management responses received.

REPORT

3 Risk assessment and opportunities appraisal

3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures. It is closely aligned to the Council's strategic and operational risk registers and is delivered in an effective manner; where Internal Audit independently and objectively examine, evaluate and report on the adequacy of its customers' control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss, poor value for money and reputational damage.

3.2 Internal Audit operates a strategic risk based plan. The plan is revisited each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. This results in a comprehensive range of audits being undertaken in the year, supporting the overall opinion on the control environment. The plan contains a contingency provision which can be utilised during the year to respond to unforeseen work demands that may arise. At the end of the 2019/20 year the impact of Coronavirus meant that the Council had to invoke its business continuity plans and the impact of this is reflected in delivery of the planned audits at this time and the year end opinion.

3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental or equalities consequences of this proposal.

3.4 Internal Audit customers are consulted on the service that they receive. Feedback is included in this report and continues to be very positive.

4 Financial Implications

4.1 The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5 Climate Change Appraisal

5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.

5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.

5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.

5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

6 Background

6.1 This report is the culmination of the work of the Internal Audit team during 2019/20 and seeks to provide:

- An update on the internal audit work undertaken.
- An annual opinion on the adequacy of the Council's governance arrangements.
- Information on the performance of Internal Audit including results of the quality and assurance programme and progress against the improvement plan.

6.2 As the Accountable Officer, the Director of Finance, Governance and Assurance (Section 151 Officer) has responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the Council's assets, in accordance with local government legislation. This includes section 151 of the Local Government Act 1972 which requires the Council to plan for the proper administration of its financial affairs.

6.3 The Accounts and Audit Regulations 2015 require the Council to have internal audit to; *'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*. In addition, organisations are no longer required to undertake an annual review of effectiveness, although audit committees should note the requirements of the Public Sector Internal Audit Standards to maintain an ongoing programme of quality assessment and improvement.

6.4 For this year only, as a result of the Coronavirus, there has been an adjustment to the timetable for draft accounts to be prepared by 31 August, instead of the 31 May. The date for final publication of the accounts and Annual Governance Statement has also been put back to 30 November in England. Officers have produced the draft accounts for 9 July and the External Auditors will complete their work before the end of September and therefore the timing of the approval this year of the accounts will be later than normal.

Scope and purpose of Internal Audit

6.5 The Public Sector Internal Audit Standards define the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Standards has been achieved. This annual report provides an internal audit opinion that can be used by the Council to inform its governance statement as part of the wider framework of assurances considered. The annual internal audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and incorporates a summary of the work in support of the opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This is in accordance with the requirements of the 2015 Accounts and Audit Regulations. In addition, Internal Audit has an independent and objective consultancy role to help line managers improve governance, risk management and control.

6.6 The purpose of Internal Audit is to provide the Council, through the Audit Committee, the Chief Executive and the Section 151 Officer, with an independent and objective opinion on risk management, control and governance processes and their effectiveness in achieving the Council's agreed objectives.

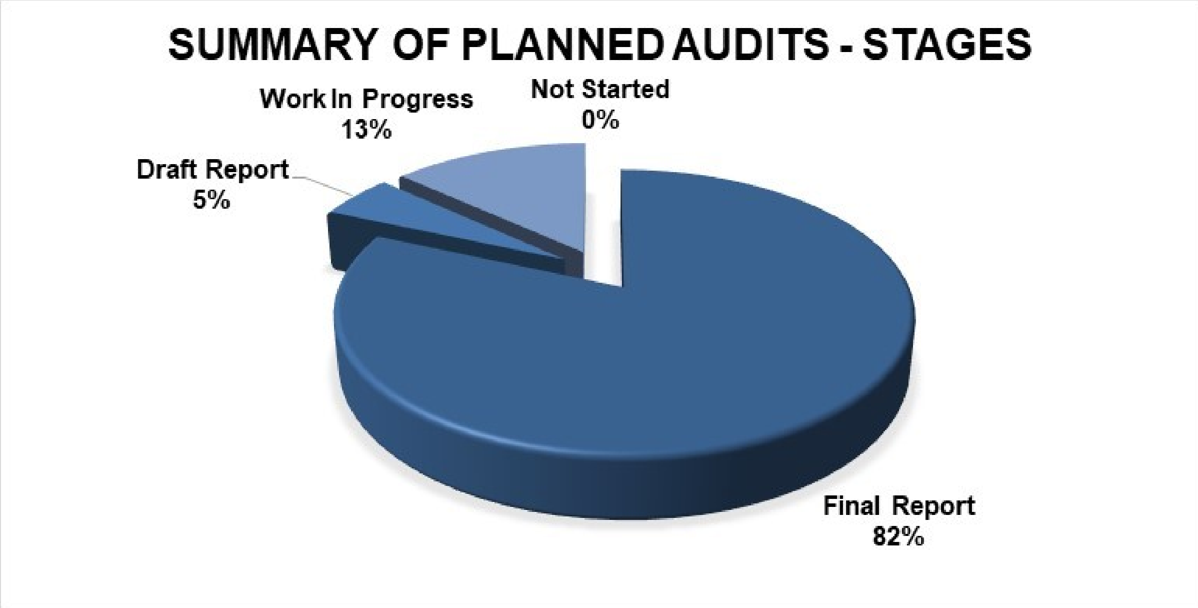
Internal Audit work undertaken

6.7 The Internal Audit Plan 2019/20 was considered and approved by Audit Committee at its meeting on the 25th February 2019. The Plan provided for a total of 2,362 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to a target of 2,217 days. Revisions were necessary following adjustments in risk, more complex and sensitive reviews and resource performance issues.

6.8 The Head of Audit can confirm that the service has been free from interference throughout the year but the mobilisation of business continuity plans has impacted on delivery towards the year end, this is explored further in this report. Final performance has been good and the target to deliver 90% of the annual plan has been achieved. **Appendix A, Table 1**.

6.9 The audit findings and performance of audit have been set out in summary reports which have been presented to the Audit Committee during the year. In total 72 final reports have been issued in 2019/20. These are listed with their assurance rating and broken down by service area at **Appendix A, Table 2**.

6.10 The following chart shows performance against the approved Internal Audit Plan for 2019/20:

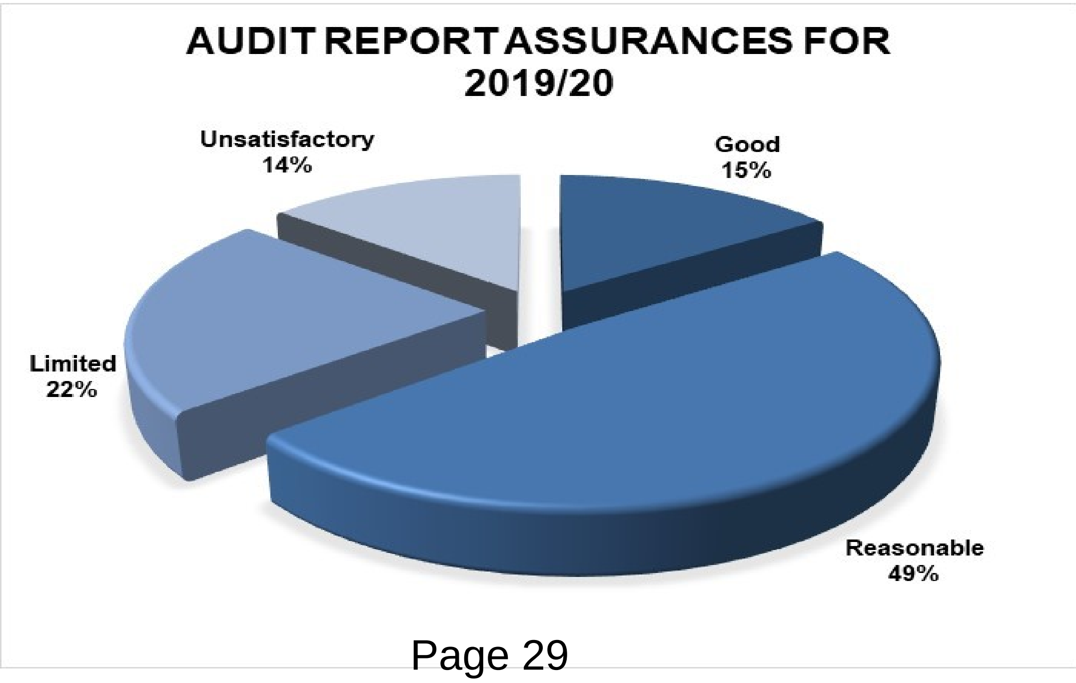


6.11 The following tables compare the assurance levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2019/20	15%	49%	22%	14%	100%
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%
2016/17	7%	45%	31%	17%	100%
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%

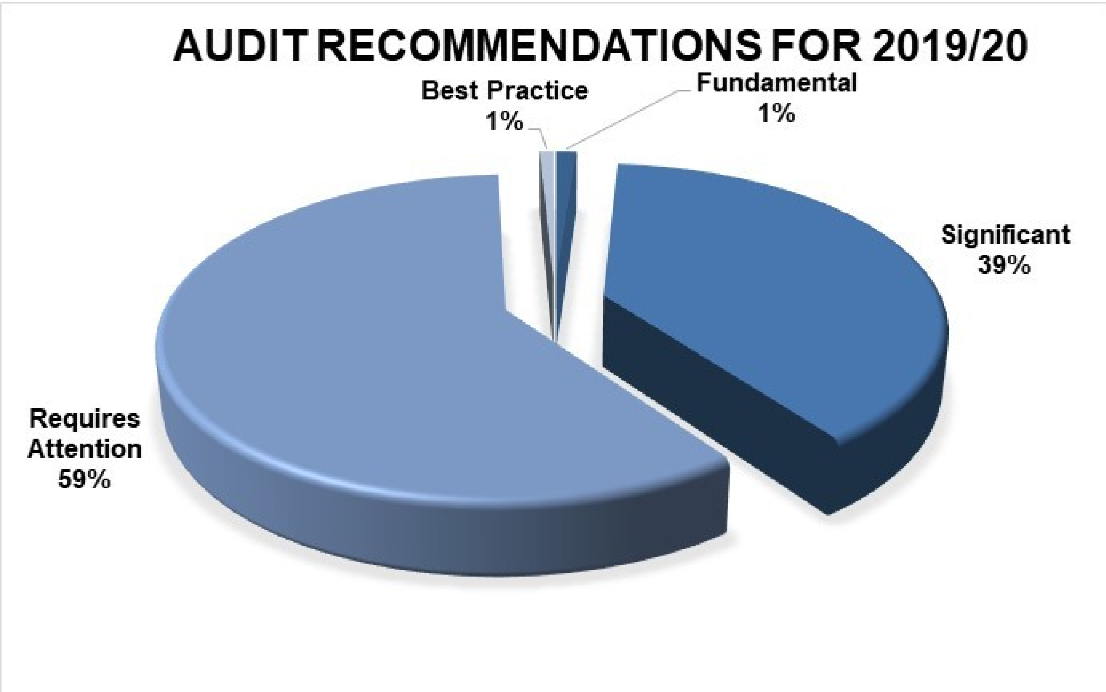
The assurance levels awarded to each completed audit area for 2019/20 appear in the following graph:



Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2019/20	1%	59%	39%	1%	100%
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%
2016/17	4%	50%	46%	0%	100%
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%

The overall spread of recommendations agreed with management following each audit review for 2019/20 appear in the attached graph:



6.12 Forty-six good and reasonable assurances were made in the year accounting for 64% of the opinions delivered. This represents a 3% decrease in the higher levels of assurance compared to the previous year, offset by a 3% increase in limited and unsatisfactory opinions. Ten unsatisfactory opinions and 16 limited assurance opinions were issued.

6.13 Further consideration of the assurance levels of completed audits shows:

i. Limitations have been placed on the scope of some of the key financial audits, the largest being Payroll. The scope for the Payroll audit was constrained responding to the Service needing to focus on pure business activity, prior to the Coronavirus pandemic. The Payroll Service was suffering from resource pressures at the year end with single points of failure and unable to engage with Audit fully. The advent of Coronavirus then impacted on the availability of officers running other financial systems and saw staff diverted to respond to front line pressures under business continuity plans. Given the timing of the Audit and the impact of Coronavirus, management comments were being provided for Payroll as this report was being drafted but not with some of the other key systems. Where this is the case, management have committed to review the internal controls once resources allow and hope to achieve this in the next six months, but if not, the process will be revisited with the Head of Audit.

ii. The Council has seen the implementation of fundamental line of business systems within both finance and human resources. Given the restricted scope for the key financial systems, it was not possible to provide a wide reaching assurance on the new IT platforms that these sit upon.

iii. Sixteen[1] 'high' risk systems within the Council attracted a good or reasonable level of assurance and six limited or unsatisfactory. The medium term financial strategy, risk management, income collection and two[2] of the fundamental audit assurance levels are good or reasonable, through which a significant amount of the Council's financial business is transacted. These results are set against three limited[3] and three[4] unsatisfactory assurance levels of fundamental systems, all in draft at year end. There are known issues in these lower assurance level audits and whilst managers have not been able to provide assurance to improve internal controls at this time, this will be revisited in the late autumn. As a result, the scope and assurance that the Head of Audit can provide to the Council is impacted upon.

iv. Unsatisfactory assurance reviews demonstrated control issues and non-compliance with the Highways Term Maintenance contract and Legionella requirements. All findings were supported by management and throughout the year steps have been put in place to address the issues or start on an implementation plan. Fundamental recommendations were implemented and none rejected by management. All unsatisfactory audits and fundamental recommendations will be revisited in 2020/21.

v. Observations from consultancy and advisory work provided;
   - Confidence in the Digital Transformation Programme and ICT Governance Approvals process and management of risk exposure to proposed system changes
   - Control improvements and advice on new policies, such as Direct Payments; approach to information security incidents; management of imprest accounts and school funds; disposal processes,
   - Awareness of fundamental procurement issues in isolated areas of the Council
   - Information on the governance and internal control environment in maintained schools
   - Confidence in the delivery of a few small IT based projects within services
   - Awareness of the financial stability of several Council suppliers and the need for business continuity processes in a few cases where there were concerns

6.14 Given the overall impact of the points above, the Head of Audit can offer limited assurance for the 2019/20 year end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively

6.15 Work has also been completed for external clients including honorary and voluntary bodies in addition to the drafting and auditing of financial statements.

6.16 A summary of the reviews resulting in limited and unsatisfactory assurances since the last report, in February 2020 is included at **Appendix A, Table 4**. The Appendix also includes descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 5 and 6**.

[1] Figures exclude draft reports completed in 2020/21.
2 capital, corporate governance in draft (N.B. not all fundamental systems are reviewed every year)
3 general ledger, periodic income, purchase ledger in draft
4 Payroll, sales ledger and debt recovery

Audit Committee are asked to advise what action they wish to follow in relation to the limited and unsatisfactory areas reported?

6.17 A total of 786 recommendations have been made in the 72 final audit reports issued in the year; these are broken down by audit area and appear at **Appendix A, Table 7**.

6.18 The number of fundamental recommendations has remained static at 1% of the total number of recommendations made. Fundamental recommendations were made on the following audits:

- **Personal Budgets and Direct Payments (Adults)**
- **Highways Term Maintenance Contract (two fundamental recommendations)**
- **Street Scene - Dog Wardens**
- **Supply Contracts**
- **Legionella**
- **Brockton Primary School**
- **Martin Wilson Primary School**
- **Trinity Primary School**

Some control improvements are reported as implemented, others are underway but delayed due to management decisions and associated resourcing issues. Where delays are experienced after a revised implementation date, this will be reported to the Audit Committee.

The percentage of significant and fundamental recommendations has increased slightly from 38% to 40%[5] compared to last year with a corresponding decrease in requires attention and best practice recommendations.

6.19 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach adopted to following up recommendations** highlighting Audit Committees involvement.

6.20 During 2019/20, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI). This involved supplying data to the Cabinet Office for matching purposes, the results of which will be reported to a later committee.

6.21 In the current year, several internal audit reviews have been conducted, to help ensure appropriate controls are in place and are operational to counter the risk of fraud. These include:

- Agency and consultancy staff
- Comfort fund accounts
- Contracts and tendering – Corporate and Property
- Debt recovery
- Environmental maintenance grants
- Housing rents client side
- Income collection
- Information security policy
- Monitoring use of facilities
- Parking cash collection
- Payroll
- Periodic income

[5] Due to an increase in significant recommendations

- Personal budgets and direct payments
- Property sales and acquisitions
- Purchase ledger
- Sales ledger
- Security of buildings
- Sickness management
- Supply contracts

6.22 The above were further supported by learning following individual investigations. Where internal control weaknesses have been identified, results are reported in a management report and recommendations made and agreed to help reduce a repeat of any inappropriate activity.

6.23 Although Internal Audit is primarily an assurance function, internal audit activity should also add value to the Council. Contingencies are provided in the plan to allow for such activities and review areas reprioritised based on risks. Examples of the types of additional work that the service has conducted since the last report include advice to:

- o Property Services regarding a replacement access system
- o Children Services on the new education management system
- o Adult Services on direct payments and
- o Ongoing advice on the digital transformation programme

An annual opinion on the adequacy of the governance arrangements

6.24 In considering an annual audit opinion, it should be noted that assurances given can never be absolute. The internal audit service can however provide the Council with reasonable assurance as to whether there are any major weaknesses to be found in risk management, governance and control processes, **Table 11 shows opinion criteria.**

6.25 The matters raised in this report are only those which came to Internal Audit's attention during its internal audit work and are not necessarily a comprehensive statement of all weaknesses that exist, or of all the improvements that may be required.

6.26 In arriving at her opinion, the Head of Audit has taken the following matters into account:

- Results of all audits undertaken during the year ended 31 March 2020;
- Results of Corporate Governance (reasonable assurance) and Risk Management (good assurance) reviews;
- Results of fundamental audit reviews and their direction of travel;
- Implementation of recommendations of a fundamental nature;
- Assurance levels provided and their direction of travel, and those of the recommendation ratings, compared against the risk appetite of the Council;
- Fundamental recommendations not accepted by management and the consequent risks;
- Effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee and/or Council;
- If any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed which may have impinged on Internal Audit's ability to meet the full internal audit needs of the Council; and
- Proportion of the Council's internal audit needs that have been covered to date.

6.27 All assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

Based on the Internal Audit work undertaken and management responses received; I can offer limited assurance for the 2019/20 year on the Council's framework for governance, risk management and internal control. There are an increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected. In addition to which, the response to the Coronavirus pandemic has led to scope limitations which restricts the independent assurances provided on the key systems that have undergone fundamental changes during the year. Where systems have been evaluated to a draft stage, assurances remain low. Management of Coronavirus has introduced unprecedented pressures and responses. Managers have been diverted onto business continuity pressures and unable to plan improvements to known internal control processes, leading to increased risks in some areas that will impact on delivery of the Council's objectives. 2019/20 has been a challenging year given the embedding of key fundamental line of business systems (financial and human resources) alongside the challenge to deliver savings, increase income and respond to Coronavirus.

Audit performance

6.28 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the previous twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and feedback gained from customer satisfaction surveys.

Aspect of measure	Target 2019/20	Actual 2019/20
Percentage of revised plan delivered	90%	96%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	87%

6.29 An annual review of Internal Audit is conducted in the form of a self-assessment of compliance with the Public Sector Internal Audit Standards. The self-assessment forms part of another report on this agenda: 'Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2019/20. In addition, an external assessment conducted by CIPFA and reported on to a February 2017 meeting of this Committee demonstrated compliance with the PSIAS, the external assessment will be repeated in five years.

6.30 Internal Audit recognises the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. The Service continually focuses on delivering high quality audit to clients – seeking opportunities to improve where possible.

- Commitment to quality begins with ensuring that appropriately skilled and experienced people are recruited and developed to undertake audits.
- Audit practice includes ongoing quality reviews for all assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
- A Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. The quality of audits is evidenced through performance and delivery, feedback from our clients and an annual self-assessment.
- There is a financial commitment for training and developing staff. Training provision is reviewed continually through the appraisal process and regular meetings with individual auditors. Individual training programmes are developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

6.31 Customers are asked for feedback on their audit experience after most audit reviews. Feedback is provided on the quality of the service and helps to ensure that audit work meets client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last three years are detailed in **Appendix A, Table 9**.

6.32 This year has seen customer surveys completed totally electronically and this has resulted in an increase in numbers received. The percentage of customers scoring the service as high or excellent has increased slightly (88 to 95%). There are a few reviews reporting reduced assurances and this reflects on the ongoing impact of resource reductions for both Internal Audit and our customers and increased pressures, the overall result remains a positive reflection of the service. That said where individual ratings are low, or showing a downward trend, we do value the opportunity to explore the reasons for these and talk to the customer to identify the key issues and aim to improve on them.

6.33 During the last year several compliments and comments have been received in respect of the service from both questionnaires and directly, these appear at **Appendix A, Table 10**. Most comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with clients. All other comments are followed up with the author to identify where lessons can be learnt and improvements made.

6.34 Internal Audit employ a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting audit assignments. All work has been performed in accordance with PSIAS. To ensure the quality of the work performed, a programme of quality measures is used, which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- Receipt of formal feedback from managers to audit findings and recommendations;
- Follow up reviews for reports attracting low assurance levels and recommendation follow up processes;
- The use of satisfaction surveys for each completed assignment;
- Annual appraisal of audit staff and the development of personal development and training plans;
- The maintenance of guidance and procedures.

6.35 There have been no instances during the year which have impacted on Internal Audit's independence and/or have led to any declarations of interest.

Performance measures

6.36 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

Review of the effectiveness of Internal Audit work by the Audit Committee

6.37 The Council has a well-established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates.

6.38 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.

6.39 The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a few reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on: Liquid Logic[6] project review; Children's direct payments; Commercial Strategy; Theatre Severn and the Highways Term Maintenance contract.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Draft Internal Audit Risk Based Plan 2019/20 - Audit Committee March 2019 Internal Audit Plan 2019/20 – Performance Report - Audit Committee September 2019 Internal Audit Plan 2019/20 – Performance Report - Audit Committee December 2019 Internal Audit Plan 2019/20 – Performance Report - Audit Committee February 2020 Public Sector Internal Audit Standards (PSIAS). Various internal documents supporting self-assessment against the PSIAS. Audit management system. Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus) (Amendment) Regulations 2020
Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee
Local Member: All
Appendices **Appendix A** Table 1: Summary of actual audit days delivered against plan 2019/20

[6] Social care IT system

Table 2: Final audit report assurance opinions issued in 2019/20
Table 3: Audit opinion and recommendations made on fundamental systems 2019/20
Table 4: Unsatisfactory and limited assurance opinions since February 2020 listed by service area
Table 5: Audit assurance opinions
Table 6: Audit recommendation categories
Table 7: Audit recommendations made in 2019/20
Table 8: Recommendation follow up process (risk based)
Table 9: Customer Feedback Survey Forms
Table 10: Summary of compliments and comments 2019/20
Table 11: The principles and assurance criteria applied to the Head of Audit's opinion

Appendix B - Audit plan by service – annual report 2019/20

APPENDIX A

Table 1: Summary of actual audit days delivered against plan 2019/20

	Original Plan	Revised Plan	March Actual	% of Original Complete	% of Revised Complete
Chief Executive	520	585	537.3	103%	92%
Finance, Governance and Assurance	293	357	347.1	118%	97%
Governance	14	14	12.3	88%	88%
Workforce and Development	213	196	159.8	75%	82%
Legal and Democratic	0	18	18.1	0%	101%
Adult Services	158	116	103.3	65%	89%
Social Care	96	95	82.2	86%	87%
Public Health	42	11	10.4	25%	95%
Public Protection	20	10	10.7	54%	107%
Place and Enterprise	310	305	285.6	92%	94%
Children's Services	252	194	143.4	57%	74%
Schools	113	128	105.3	93%	82%
Other	139	66	28.5	21%	43%
S151 Planned Audit	1,240	1,200	1,069.6	86%	89%
Contingencies and other chargeable work	894	781	825.0	92%	106%
Total S151 Audit	2,134	1,980	1894.6	89%	96%
External Clients	228	237	237.3	104%	100%
Total	2,362	2,217	2,131.9	90%	96%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in 2019/20

Summary

Audits 2019 / 20	Assurance	%	Direction of travel	Audits 2018 / 19	%	Audits 2017/18	%
11	Good	15	↓	16	26	22	20
35	Reasonable	49	↑	26	41	48	44
46	Sub total	64	↓	42	67	70	64
16	Limited	22	↑	17	27	32	29
10	Unsatisfactory	14	↓	4	6	8	7
26	Sub total	36	↓	21	33	40	36
72	Overall total	100		63	100	110	100

Full details

	Audit	Assurance
1	Liquid Logic Data Migration	Good
2	Property Sales and Acquisitions	Good
3	ERDF Grant Claims	Good
4	Local Enterprise Partnership (LEP)	Good
5	Strengthening Families Grant	Good
6	CareFirst Decommissioning	Good
7	Section 11 Arrangements	Good
8	Medium Term Financial Strategy	Good
9	Risk Management	Good
10	Payroll System 2018/19	Good
11	Nutanix	Good
12	Housing Rents Client Side 2018/19	Reasonable
13	Albert Road Comforts Fund	Reasonable
14	Albert Road Day Centre	Reasonable
15	Adult Placements 2018/19	Reasonable
16	HomePoint Contract	Reasonable
17	Abbots Wood Comforts Fund	Reasonable
18	Abbots Wood Day Centre	Reasonable
19	Help to Change Client Side	Reasonable
20	Parking - Cash Collection 2018/19	Reasonable
21	Pest Control	Reasonable
22	Technology Forge Application 2018/19	Reasonable
23	Bulky Waste	Reasonable
24	Street Lighting 2019/20	Reasonable
25	Contracts and Tendering Property	Reasonable
26	Environmental Maintenance Grants	Reasonable
27	Minsterley Primary School	Reasonable
28	Tuition Medical Behaviour Support Service (TMBSS)	Reasonable
29	Civica Icon Income Management Application 2018/19	Reasonable
30	Income Collection 2018/19	Reasonable
31	Sales Ledger 2018/19	Reasonable
32	Enterprise Resource Planning (ERP) Data Migration Review 2018/19	Reasonable
33	General Ledger 2018/19	Reasonable
34	Emergency Planning	Reasonable
35	Accountable Bodies	Reasonable
36	Sickness Management 2018/19	Reasonable
37	Teachers' Pension Scheme Recommendation Follow Up 2018/19	Reasonable
38	Project Management Adequacy of Arrangements 2018/19	Reasonable
39	Public Services Network (PSN)	Reasonable
40	Asbestos	Reasonable
41	Health and Safety	Reasonable
42	Information Security Policy	Reasonable
43	Privileged User Security	Reasonable
44	Microsoft Applications Deployment and Control	Reasonable
45	Integration Hub	Reasonable
46	Contracts and Tendering - corporate 2018/19	Reasonable
47	Personal Budgets and Direct Payments (Adults) 2018/19	Limited with Fundamental recommendation
48	Chipside Parking System Application Review 2018/19	Limited
49	Economic Growth Strategy 2018/19	Limited
50	CONFIRM-Highways Management System 2018/19	Limited

	Audit	Assurance
51	Security of Council Buildings	Limited
52	Asset Management Strategy	Limited
53	School Planning and Transport Arrangements	Limited
54	Woodlands School	Limited
55	Martin Wilson School	Limited with Fundamental recommendation
56	Purchase Ledger 2018/19	Limited
57	SAMIS Decommissioning	Limited
58	Empty Homes	Limited
59	Supply Contracts	Limited with Fundamental recommendation
60	Agency and Consultancy Staff	Limited
61	GDPR / Freedom of Information 2018/19	Limited
62	Monitoring Use of Facilities 2018/19	Limited
63	Acton Scott Working Farm Museum	Unsatisfactory
64	Highways Term Maintenance Contract - Kier	Unsatisfactory with two fundamental recommendations
65	Street Scene - Dog Wardens	Unsatisfactory with Fundamental recommendation
66	The Lantern	Unsatisfactory
67	Much Wenlock Leisure Centre (Joint Use)	Unsatisfactory
68	Brockton CE Primary School 2018/19	Unsatisfactory with Fundamental recommendation
69	Bishops Castle Community College	Unsatisfactory
70	Trinity C E Primary School	Unsatisfactory with Fundamental recommendation
71	Debt Recovery 2018/19	Unsatisfactory
72	Legionella	Unsatisfactory with Fundamental recommendation

Key

Text in blue	High risk from an audit perspective

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	4	18	7	2	31
Finance, Governance and Assurance	2	7	4	1	14
Governance	0	0	0	0	0
Workforce and Development	2	10	1	1	14
Legal and Democratic	0	1	2	0	3
Adult Services	1	10	2	0	13
Social Care	1	7	1	0	9
Public Health	0	1	0	0	1
Public Protection	0	2	1	0	3
Place and Enterprise	3	5	5	5	18
Children's Services	3	2	2	3	10
Schools	0	2	2	3	7

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Others	3	0	0	0	3
Total for 2019/20 ➢ **Numbers**	**11**	**35**	**16**	**10**	**72**
➢ **Percentage**	**15%**	**49%**	**22%**	**14%**	**100%**
Percentage 2018/19	**26%**	**41%**	**27%**	**6%**	**100%**
Percentage 2017/18	**20%**	**44%**	**29%**	**7%**	**100%**
Percentage 2016/17	**7%**	**45%**	**31%**	**17%**	**100%**
Percentage 2015/16	**14%**	**35%**	**42%**	**9%**	**100%**
Percentage 2014/15	**17%**	**47%**	**28%**	**8%**	**100%**

Table 3: Audit opinion and recommendations made on fundamental systems 2019/[7]20

Fundamental system	Direction of travel	Level of assurance given
Corporate Governance	=	Reasonable
Debt Recovery	=	Unsatisfactory
Purchase Ledger	=	Limited
Capital Accounting	=	Good
General Ledger	↓	Limited
Sales Ledger	↓	Unsatisfactory
Periodic Income	Not Applicable	Limited
Payroll System	↓	Unsatisfactory
Risk Management	=	Good

Table 4: Unsatisfactory and limited assurance opinions since February 2020 listed by service area[8]

Unsatisfactory assurance

Children's Services – Trinity CE Primary School

- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- The school fund is operated in accordance with the school fund notes of guidance.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.
- Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.

[7] These reports were in draft as at 31st March 2020 and are therefore not included in Table 2.
[8] Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

Place and Enterprise – Much Wenlock Joint Use Leisure Centre (Limited 2017/18)

- Previous audit recommendations have been implemented.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.
- Relevant staff have Disclosure Baring Service (DBS) clearance.
- Regular budget monitoring is performed and any significant variations are investigated.
- Stocks held are appropriate, controlled and can be accounted for.
- Assets held are recorded, can be accounted for and are safeguarded against loss.
- Appropriate procedures are in place for the security of staff and material assets

Limited assurance - none in this period

Table 5: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 6: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 7: Audit recommendations made in 2019/20

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	5	132	68	2	207
Finance, Governance and Assurance	1	63	29	1	94
Governance	0	0	0	0	0
Workforce and Development	3	48	29	1	81
Legal and Democratic	1	21	10	0	32
Adult Services	0	85	29	1	115
Social Care	0	57	23	1	81
Public Health	0	4	0	0	4
Public Protection	0	24	6	0	30
Place and Enterprise	1	112	101	3	217
Children's Services	0	136	108	3	247
Schools	0	132	107	3	242
Others	0	4	1	0	5
Total for 2019/20 ➢ **Numbers**	**6**	**465**	**306**	**9**	**786**
➢ **Percentage**	**1%**	**59%**	**39%**	**1%**	**100%**
Percentage 2018/19	**2%**	**60%**	**37%**	**1%**	**100%**
Percentage 2017/18	**3%**	**56%**	**41%**	**0%**	**100%**
Percentage 2016/17	**4%**	**50%**	**46%**	**0%**	**100%**
Percentage 2015/16	**4%**	**54%**	**42%**	**0%**	**100%**
Percentage 2014/15	**6%**	**53%**	**40%**	**1%**	**100%**

Table 8: Recommendation follow up process (risk based)

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

Table 9: Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2017/ 2018	2018/ 2019	2019 / 2020	Direction of Travel

Pre-audit arrangements	87%	88%	85%	↓
Post-audit briefing	88%	88%	84%	↓
Audit coverage/scope of the audit	89%	83%	84%	↑
Timeliness of production of report	92%	86%	86%	↔
Accuracy and clarity of report	89%	89%	85%	↓
Practicality of recommendations	82%	82%	80%	↓
Professionalism of approach	95%	95%	94%	↓
Communication skills	98%	97%	95%	↓
Timeliness, competence, manner	88%	88%	86%	↓
Number of forms returned	56	28	44	↑
% of forms scored as excellent and good	90%	88%	95%	↑

Table 10: Summary of compliments and comments 2019/20

Compliments[9]
Relationship with the Auditor is good and very grateful for a constructive and informative exercise. The audit was carried out professionally and the report completed in a timely way. Thank you.

The audit was a very constructive experience. It was gratifying to receive assurance that our newly implemented control processes and procedures are operating effectively but it also helped to identify areas whether future improvements could be made. The professional way in which the audit was conducted together with the positive result have given the team the impetus and enthusiasm to continue to refine and improve our systems and processes.

The audit went very smoothly from initial notification to post-audit debrief. The Auditor explained the process and took time to understand our service (both what we do and don't do) and define the scope of the audit. Questions were asked of the team and management, and we felt this was very thorough, and you were happy to meet up and discuss more complicated areas. We feel the audit report has highlighted some areas where we can improve on processes and were pleased to be scrutinised and challenged by an external and objective pair of eyes to give us a better overview of the service that we deliver. Thank you very much for your time and professionalism during the audit.

Following the audit there will be a need for further investigation into the action of the team (highlighted allocation of the grant outside the scope of the policy), therefore as the audit covered a sample of the grants there will be a need to look at every grant approved/refused. Whilst I appreciate the difficulty of resourcing this from Audit it would be great to have the same auditor continue the audit to review every grant.

I thought the audit was a fair reflection of the current state of the system. The audit came at an opportune time as the leadership of the unit has changed and a fresh start is needed. The audit was a welcome critical eye for the re-development of the unit.

Comments

[9] Depersonalised for public reporting

1. The feedback, for several reasons, was rushed and there were areas that weren't discussed prior to the report that would have been reported differently had there been an opportunity to discuss them.

   The setting had competing priorities that materialised once the audit began and were unable to respond to the Audit at the pre-arranged times. This was addressed on site.

2. There is a broader inspection regime for Children's Services, It is not clear how this is taken in to account. There is a high level of QA and scrutiny from Ofsted, and our own QA Framework, how this type of assurance is considered with in the corporate audit process. This could reduce duplication and resource required.

   There was confusion about Internal Audit's role and Ofsted. A self-assessment completed for Ofsted was just that. The Internal Audit work is more granular and drills down to ensure that the supporting evidence demonstrates the position of the service. The approaches were talked through with the service owner and understood before the audit commenced.

3. The post audit briefing was useful however this was not reflected in the final report – this has been addressed.

   The service was expecting inclusion of actions discussed from other areas of a more corporate nature to be included in the audit, which were not part of the agreed scope. This was discussed and an explanation provided in the report to explain the scopes limitations.

4. In talking with the Schools Improvement Advisory Team, we feel that financial training or workshops should be provided annually to clarify the Council's Financial Guidelines, Policies and Procedures. This is something that we feel needs to be put in place, especially after speaking with a range of Headteachers in Shropshire, some experienced and some new to the role, who felt that finance is their weakest area of expertise and would feel anxious about a financial audit without prior training. In addition, one of the Heads disputed several of the findings in the draft report.

   The setting had a few heads who did not all contribute to the process and conflicted with each other in their views. The Audit Marketing Brochure was shared that explained the role and approach of Internal Audit. The Auditor and their senior discussed this with the setting too. Children's Services staff were also engaged in understanding and explaining the issues experienced. In the end the setting accepted the Audit work and resulting report, after challenge, without change. Financial training and workshops can be bought in by schools.

Table 11: The principles and assurance criteria applied to the Head of Audit's opinion:

Principles applied to the opinion:

1. Authentic: Opinions are fair, reliable and honest
2. Transparent: Opinions are qualified with evidence or professional judgement
3. Strategic: Macro level information without undue detail
4. Insightful: Information is engaging and generates discussion
5. Resolute: Opinion is delivered with courage and conviction

Assurance criteria applied:

Opinion	Indication of when this type of opinion may be given**	Traditional Opinion
Substantial	Limited number of medium risk related weaknesses identified but generally only low risk rated weaknesses have been found in individual assignments/ observations. No one area is classified as high or/ critical risk	Unqualified
Reasonable	Medium risk rated weakness identified in individual assignments/ observations that are not significant in aggregate to the system of governance, risk management or control. High risk rated weaknesses identified in individual assignments/ observations that are isolated to specific systems, processes and services None of the individual assignment reports/ observations have an overall high or critical risk	
Limited	Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk	
No Assurance	High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk	Qualified
Disclaimer	An opinion cannot be issued because insufficient internal audit work has been completed due to either: -restrictions in the agreed audit programme, which means that audit work would not provide enough evidence to	Qualified

Opinion	Indication of when this type of opinion may be given**	Traditional Opinion
	conclude on the adequacy and effectiveness of governance, risk management and control, or - unable to complete enough reviews and gather enough evidence to conclude on the adequacy of arrangements for governance, risk management and control	

** Indicators refer not only to Internal Audit reviews, but wider assurance providers and intelligence from across the business that is evidenced, an example would be peer reviews.

APPENDIX B

AUDIT PLAN BY SERVICE – ANNUAL REPORT 2019/20

	Original Plan Days	Revised Plan Days	31st March 2020 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	**14**	**14**	**12.3**	**88%**	**88%**
Finance Governance & Assurance					
Finance Transactions	85	103	108.7	128%	106%
Finance and S151 Officer	88	85	78.1	89%	92%
Financial Management	73	108	97.0	133%	90%
Procurement and Contract Management	40	44	46.1	115%	105%
Risk Management and Insurance	7	17	17.2	246%	101%
	293	**357**	**347.1**	**118%**	**97%**
Workforce and Development					
Human Resources	70	77	57.8	83%	75%
Information Governance	8	4	3.6	45%	90%
ICT	110	77	59.9	54%	78%
Occupational Health & Safety	25	36	36.4	146%	101%
Print Services	0	2	2.1	0%	105%
	213	**196**	**159.8**	**75%**	**82%**
Legal and Democratic					
Legal Services	**0**	**18**	**18.1**	**0%**	**101%**
CHIEF EXECUTIVE	**520**	**585**	**537.3**	**103%**	**92%**
ADULT SERVICES					
Social Care Operations					
Long Term Support	53	51	50.0	94%	98%
Assistive Services	10	10	3.5	35%	35%
Provider Services - Comforts Funds	6	12	10.1	168%	84%
Provider Services - Establishments	12	13	9.1	76%	70%
Housing Services	15	9	9.5	63%	106%
	96	**95**	**82.2**	**86%**	**87%**
Public Health	**42**	**11**	**10.4**	**25%**	**95%**
Public Protection	**20**	**10**	**10.7**	**54%**	**107%**
ADULT SERVICES	**158**	**116**	**103.3**	**65%**	**89%**
PLACE AND ENTERPRISE					
Business, Enterprise and Commercial Services					
Commercial Services	10	7	2.2	22%	31%

	Original Plan Days	Revised Plan Days	31st March 2020 Actual	% Original Plan Achieved	% Revised Plan Achieved
Strategic Asset Services	45	54	54.8	122%	101%
	55	**61**	**57.0**	**104%**	**93%**
Economic Development					
Business Growth and Investment	35	29	20.7	59%	71%
Development Management	15	7	7.0	47%	100%
Planning & Corporate Policy	0	0	0.6	0%	0%
Project Development	15	0	0.0	0%	0%
	65	**36**	**28.3**	**44%**	**79%**
Infrastructure and Communities					
Highways	70	99	78.3	112%	79%
Environmental Maintenance	8	10	10.0	125%	100%
Library Services	5	10	10.0	200%	100%
Public Transport	20	16	16.2	81%	101%
Waste	8	8	8.6	108%	108%
	111	**143**	**123.1**	**111%**	**86%**
Culture and Heritage					
Theatre Severn and OMH	14	26	33.6	240%	129%
Leisure Services	38	17	26.9	71%	158%
Outdoor Recreation	6	0	0.0	0%	0%
Visitor Economy	21	22	16.7	80%	76%
	79	**65**	**77.2**	**98%**	**119%**
PLACE AND ENTERPRISE	**310**	**305**	**285.6**	**92%**	**94%**
CHILDREN'S SERVICES					
Safeguarding					
Children's Placement Services & Joint Adoption	69	35	13.1	19%	37%
Safeguarding	16	14	15.0	94%	107%
	85	**49**	**28.1**	**33%**	**57%**
Learning and Skills					
Business Support	0	0	0.4	0%	0%
Education Improvements	54	17	9.6	18%	56%
Primary/Special Schools	87	95	71.8	83%	76%
Secondary Schools	26	33	33.5	129%	102%
	167	**145**	**115.3**	**69%**	**80%**
CHILDREN'S SERVICES	**252**	**194**	**143.4**	**57%**	**74%**
Total Shropshire Council Planned Work	**1,240**	**1,200**	**1,069.6**	**86%**	**89%**
CONTINGENCIES					
Advisory Contingency	60	32	26.2	44%	82%

	Original Plan Days	Revised Plan Days	31st March 2020 Actual	% Original Plan Achieved	% Revised Plan Achieved
Fraud Contingency	200	240	255.5	128%	106%
Unplanned Audit Contingency	100	0	0.0	0%	0%
Other non audit Chargeable Work	534	487	543.3	102%	112%
CONTINGENCIES	**894**	**781**	**825.0**	**92%**	**106%**
Total for Shropshire	**2,134**	**1,980**	**1,894.6**	**89%**	**96%**
EXTERNAL CLIENTS	**228**	**237**	**237.3**	**104%**	**100%**
Total Chargeable	**2,362**	**2,217**	**2,131.9**	**90%**	**96%**

Committee and Date	Item
Audit Committee	
31st July 2020	
1:30am	Public

ANNUAL REVIEW OF INTERNAL AUDIT: QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

1.1 The Accounts and Audit Regulations 2015 (5) require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering Public Sector Internal Auditing Standards (PSIAS) or guidance.

1.2 As part of the Service's Quality Assurance and Improvement Programme (QAIP), this report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards. Compliance with these standards demonstrates an effective Internal Audit Service. Audit Committee is required to review this report and its findings.

1.3 This review should be read in conjunction with the Annual Internal Audit report, found elsewhere on this agenda. When read together the two reports demonstrate the effectiveness of internal audit. The update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

2. Recommendations

2.1 The Committee is asked to consider and endorse, with appropriate comment, the conclusion that the Council employs an effective internal audit to evaluate its risk management, control and governance processes that complies with the principles of the Public Sector Internal Audit

Standards and has planned improvement activities to work towards full compliance where appropriate.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Accounts and Audit Regulations 2015 (section 5) require a relevant authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering public sector internal auditing standards (PSIAS) or guidance.

3.2 Under the PSIAS, Internal Audit's mission is, 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Thereby providing assurances on the Council's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.

3.3 The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements. Under 1310 of the PSIAS there is a requirement for Internal assessments which include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

3.4 Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity and is incorporated into the routine policies and practices used to manage the activity. It uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.

3.5 This Report provides Members with details of an annual assessment conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. It is completed by the

Head of Audit and discussed with the Section 151 Officer before the results and improvement plan are reported to Audit Committee.

3.6 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental or equalities consequences of this proposal.

4. Financial Implications

4.1 The Internal Audit service is provided within approved budgets. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS in compliance with Standard 1312 (external inspection) to be conducted. The Chairman, Section 151 Officer and the Head of Audit have delegated authority to consider the approach/scope of the assessment and agree this with an external assessor and report back to the Committee.

4.2 The provision of an effective Internal Audit can help deliver key messages to the Council on its systems of internal control, governance and risk management in the most efficient and economical way.

5. Climate Change Appraisal

5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.

5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.

5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.

5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

6. Background

6.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities and were updated in 2017. They consist of:

- Mission of Internal Audit;
- Definition of Internal Auditing;
- Core Principles for the Professional Practice of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

6.2 The 'Mission' of Internal Audit is, 'to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. Internal Audit's effectiveness is demonstrated when the following principles are present and operating effectively.

- Demonstrates integrity

- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive and future focused
- Promotes organisational improvement.

6.3 In April 2019, CIPFA updated the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards. Internal Audit is reviewed using this guidance for compliance with the Standards, the results of which are summarised in **Appendix A**.

6.4 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Director of Finance, Governance and Assurance (the Section 151 Officer) with the key assurances he needs in both managing the financial affairs of the Council and producing the annual governance statement.

6.5 In complying with the PSIAS, Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.

6.6 Appendix A provides an update against the previously approved improvement plan. Most standards are complied with totally. Where there are areas of non-compliance these are detailed below for members to consider further. Members should note that there are no new areas of none or partial compliance. Where further improvements have been identified in areas of compliance these, along with the actions outlined below, appear in the improvement plan within the appendix, to ensure continuing conformance to the standards.

Areas of potential non-conformance

6.7 There is no change to the areas of potential conflict from previous years, the details of which are repeated here:

6.8 **Code of Ethics - Objectivity Standard:** Do internal auditors display objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?

Finding: It is felt important that internal audit is consulted during system, policy or procedure development. Auditors have been assigned to business review projects where there is a possibility that internal control systems will be affected. This is an opportunity for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this is not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based.

There is therefore **partial** conformance. This is not considered to be to the detriment of the principles of auditing and the independent review process helps to mitigate any risks, therefore no actions are proposed.

6.9 **1100 Independence and Objectivity Standard**: Does the Chief Audit Executive (CAE) confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples **can be** used by the CAE when assessing the organisational independence of the internal audit activity: The board:

Approves the internal audit budget and resources plan.

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee.

Approves decisions relating to the appointment and removal of the CAE

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, including the appointment and removal of the CAE, and to report any concerns to the Audit Committee.

Therefore, **partial** conformance: Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee, this is completed for Shropshire Council.

The Section 151 Officer also seeks, as he deems appropriate, opinions from the Chairs of externally serviced Audit Committees and their key officers on the Head of Audit's performance for use in her appraisal.

6.10 The above are not considered significant variations in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement.

6.11 In addition to the internal assessment, an external assessment was conducted on and reported by CIPFA in February 2017. The opinion of CIPFA was that Shropshire Council Audit Services, 'generally conforms to the requirements of the Public Sector Internal Audit Standards and to the requirements of the Local Government Application Note'. All recommended improvements agreed following the external assessment, which were of a minor nature, were adopted within the agreed timeframes. An external assessment will next be due in 2021/22.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) ➢ Accounts and Audit Regulations 2015 ➢ Public Sector Internal Audit Standards 2017 ➢ Local government application notes for the UK Public Sector Internal Audit Standards CIPFA 2019 ➢ Completed Conformance Checklist 2019/20 and supporting evidence ➢ Internal Audit Quality Assurance Improvement Programme – External assessment report, Audit Committee, February 2017.
Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee
Local Member N/A
Appendix A: Public Sector Internal Audit Standards conformance assessment and improvement plan

Appendix A

Public Sector Internal Audit Standards July 2020 conformance assessment and improvement plan

Standard	Conformance	Observations and actions proposed
Mission of Internal Audit	Yes	
Definition of Internal Auditing	Yes	
Core Principles for the Professional Practice of Internal Auditing	Yes	
Code of Ethics	Yes	
Integrity	Yes	4.1 Plan ongoing compliance updates with PSIAS at team meetings. *Quarterly* *Head of Audit*
Objectivity	Partially	See paragraph 5.8 in report.
Confidentiality	Yes	4.3 Ensure all filing conforms with retention guidelines *Ongoing* *Seniors*
Competency	Yes	4.4 Dates for appraisals set and delivered. *November 2020* *Seniors*
Attribute Standards		
1000 Purpose, Authority and Responsibility	Yes	
1100 Independence and Objectivity	Yes	
1110 Organisational Independence	Partially	See paragraph 5.9 in report.
1111 Direct Interaction with the Board	Yes	
1120 Individual Objectivity	Yes	
1130 Impairment to Independence or Objectivity	Yes	
1200 Proficiency and Due Professional Care	Yes	

Standard	Conformance	Observations and actions proposed
1210 Proficiency	Yes	5.3.8 Ongoing continuous development of IT skills across the audit team and move the type of audit review conducted by auditors to a more technical one to reflect digital transformation plans. *March 2021* *Principal IT Auditor* 5.3.9 Continue to embed the data analytics approach to appropriate audits. *March 2021* *Seniors*
1220 Due Professional Care	Yes	
1230 Continuing Professional Development	Yes	
1300 Quality Assurance and Improvement Programme	Yes	5.4.1.1 Ongoing review of the Audit manual and the quality review processes to ensure complete compliance with the standards and suitable guidance for staff. *March 2021* *Head of Audit and Seniors* 5.4.1.2 Complete this assessment and continue to report to Audit Committee annually along with a high-level improvement programme. *July 2021* *Head of Audit and Seniors*
1310 Requirements of the Quality Assurance and Improvement Programme	Yes	
1311 Internal Assessments	Yes	
1312 External Assessments	Yes	
1320 Reporting on the Quality Assurance and Improvement Programme	Yes	

Standard	Conformance	Observations and actions proposed
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Yes	
1322 Disclosure of Non-conformance	Yes	
Performance Standards		
2000 Managing the Internal Audit Activity	Yes	
2010 Planning	Yes	
2020 Communication and Approval	Yes	
2030 Resource Management	Yes	
2040 Policies and Procedures	Yes	
2050 Coordination	Yes	
2060 Reporting to Senior Management and the Board	Yes	6.1.30 Continue to ensure senior managers are informed of changes in the internal control environment. *Quarterly throughout 2020/21* *Head of Audit*
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Yes	
2100 Nature of Work	Yes	
2110 Governance	Yes	
2120 Risk Management	Yes	
2130 Control	Yes	
2200 Engagement Planning	Yes	
2210 Engagement Objectives	Yes	
2220 Engagement Scope	Yes	
2230 Engagement Resource Allocation	Yes	
2240 Engagement Work Programme	Yes	
2300 Performing the Engagement	Yes	

Standard	Conformance	Observations and actions proposed
2310 Identifying Information	Yes	
2320 Analysis and Evaluation	Yes	
2330 Documenting Information	Yes	
2340 Engagement Supervision	Yes	
2400 Communicating Results	Yes	
2410 Criteria for Communicating	Yes	
2420 Quality of Communications	Yes	
2421 Errors and Omissions	Yes	
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	Yes	
2431 Engagement Disclosure of Non-conformance	Yes	
2440 Disseminating Results	Yes	
2450 Overall Opinion	Yes	
2500 Monitoring Progress	Yes	
2600 Communicating the Acceptance of Risks	Yes	

Committee and Date	Item
Audit Committee 31st July 2020	

FINANCIAL OUTTURN 2019/20

Responsible Officer James Walton
Email: james.walton@shropshire.gov.uk Tel: (01743) 255011

1. Summary

1.1 This report provides details of the revenue and capital outturn position for Shropshire Council for 2019/20 and provides a summary of:

- The revenue outturn for each service area with a commentary of the main variations and an outline of how the position has changed since Quarter 3.
- The movements in the Council's General Fund balance.
- The Council's reserves and provisions.
- The capital outturn for each service area with a commentary of the main variations and the budget slipped for 2019/20.

1.2 The Council's controllable revenue position for 2019/20 has deteriorated by £0.159m when compared with projections made at Quarter 3, resulting in a net controllable overspend of £1.692m, which represents a variance of 0.3% on the gross budget.

1.3 The outturn on non-controllable insurance is an underspend of £0.041m. When deducted from the controllable overspend, the total outturn adjustment to the general fund is a reduction in the fund of £1.651m.

1.4 The outturn capital expenditure for 2019/20 is £59.149m, representing 83% of the re-profiled budget of £70.982m. All £11.773m of this underspend has been carried forward to the 2020/21 programme.

2. Recommendations

It is recommended that Members:

A. Note that the outturn for the revenue budget for 2019/20 is a controllable overspend of £1.692m. This represents 0.3% of the original gross budget of £568.489m.

B. Note that had £0.460m of the Council's General Fund not been applied in response to the Storm Dennis emergency event, and had £0.387m Coronavirus funding not been applied to revenue at year end, the controllable outturn position would have been an overspend of £2.539m.

C. Note that the level of the General Fund balance after adjusting for the outturn overspend and insurance position stands at £13.510m, which is significantly below the recommended level.

D. Note that the outturn for the Housing Revenue Account for 2019/20 is an underspend of £4.106m and the level of the Housing Revenue Account reserve stands at £10.140m (2018/19 £9.813m).

E. Note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £1.931 in 2019/20 and the reasons for this.

F. Note that the level of school balances stand at £1.891m (2018/19 £4.178m).

G. Approve net budget variations of £9.710m to the 2019/20 capital programme, detailed in Appendix 5 / Table 11 and the re-profiled 2019/20 capital budget of £70.982m.

H. Approve the re-profiled capital budgets of £127.309m for 2020/21, including slippage of £11.773m from 2019/20, £89.835m for 2021/22 and £103.110m for 2022/23 as detailed in Appendix 5 / Table 15.

I. Accept the outturn expenditure set out in Appendix 5 of £59.209m, representing 83% of the revised capital budget for 2019/20.

J. Approve retaining a balance of capital receipts set aside of £19.619m as at 31st March 2020 to generate a one-off Minimum Revenue Provision saving of £0.693m in 2020/21.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Details of the potential risks affecting the balances and financial health of the Council are detailed within the report. Each variation from budget is also RAG rated to confirm the level of risk to the Council's balances.

4. Financial Implications

4.1 This report is based on the financial outturn of the Council's revenue and capital budget for 2019/20 and therefore considers the effect that the overspend has on the Council's balances.

5. Background

5.1 Cabinet has received quarterly monitoring reports on the revenue and capital budget during the course of the year. This has meant that management action has been taken to reduce the forecast overspend position as budget pressures have arisen. However the scale of budget pressures and unachieved savings within the year, combined with emergency events that took place within Q4, have meant that officers have been unable to reduce the overspend position to nil.

6. Revenue Outturn Position

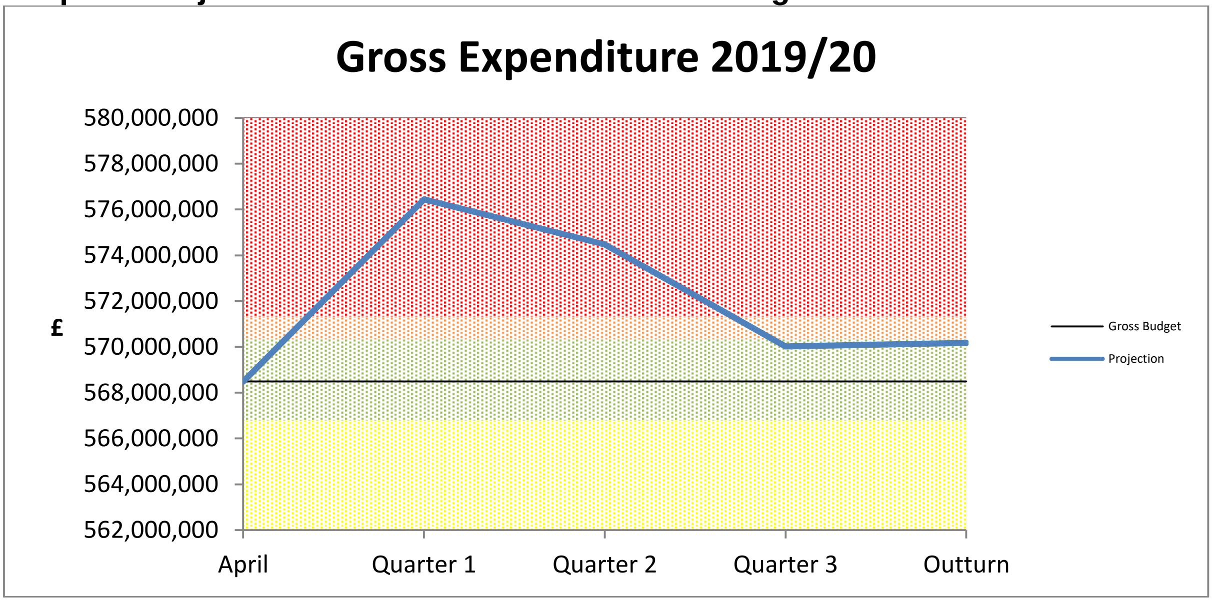
6.1 The final outturn for 2019/20 shows net controllable revenue expenditure of £215.530m and a controllable overspend of £1.692m. The overall position for service areas is detailed in Table 1 below.

Table 1 – Final Controllable Outturn

	£'000
Net Budget	213,839
Controllable Outturn for 2019/20	215,530
Controllable Overspend for 2019/20	**1,692**

6.2 The forecast year end position for the Council is revised each Quarter (monthly for Directors) and reported using the graph below. The area of the graph banded green shows the extent of variance from the budget that can be seen as reasonable given the size and complexity of the Council's budget. The outturn overspend of £1.692m is narrowly falling within the green banding as shown in Graph 1 below.

Graph 1: Projected Outturn Variance to Gross Budget



6.3 During Quarter 4, Storm Dennis caused significant flooding in Shropshire, resulting in £0.520m emergency revenue expenditure being incurred. Expenditure over and above the Council's Bellwin threshold is eligible to be reimbursed by Central Government, however the Council's threshold for 2019/20 stands at £0.460m, meaning that the first £0.460m expenditure incurred is expected to be funded from the Council's General Fund. Therefore £0.460m has been drawn down from the General Fund at year end to cover expenditure incurred during the emergency event. This, however, does not support the loss of income from car parking and theatre income that would have been lost and is reflected in the accounts and later in this report.

6.4 Further to the Storm Dennis expenditure incurred, £0.387m revenue costs were incurred within 2019/20 as a result of the coronavirus pandemic. £0.387m of the £17.918m funding provided by MHCLG to help the local authority respond to coronavirus pressures across all of the services that it delivers has therefore been applied to the 2019/20 outturn position. Without utilising this funding, and without utilising £0.460m of the General Fund to offset Storm Dennis expenditure as above, the Council's controllable outturn position would have been an overspend of £2.539m, which, when represented in Graph 1, would have been very close to the red (danger) zone.

6.5 The controllable overspend of £1.692m for 2019/20 is presented below by service area in Table 2. End of year entries include items of non-controllable spend (e.g. insurance) that are not included within service projections throughout the year. The non-controllable element of spend has been excluded from the figures presented below to enable a direct comparison to be made between controllable expenditure at year end, and projections made throughout the year.

Table 2: 2019/20 Budget Variations Analysed by Service Area (£'000)

Service Area	Revised Budget £'000	Outturn £'000	(Under) / Overspend £'000	RAGY Classification
Adult Services	107,823	108,708	885	G
Central DSG	-	-	-	G
Children's Services	49,863	56,531	6,668	R
Corporate Budgets	(5,236)	(16,588)	(11,352)	Y
Finance, Governance & Assurance	2,828	2,280	(548)	Y
Legal & Democratic Services	506	380	(125)	Y
Place	57,655	63,911	6,256	R
Strategic Management Board	(14)	(107)	(92)	Y
Workforce & Transformation	414	414	(0)	Y
Total	**213,839**	**215,530**	**1,692**	**G**

6.6 Services have worked to attempt to deliver a balanced council position overall, through the implementation of a spending freeze and recruitment freeze implemented mid year, however it has not been possible to reduce the overspend position to nil.

6.7 Further analysis of the variations to budgets for all service areas is provided within Appendix 1.

7. Update on Savings Delivery

7.1 During the year the savings projections are RAG rated in order to establish the deliverability of the savings and any potential impact on the outturn projection for the 2019/20 financial year. The RAG ratings are categorised as follows:

Red – Savings are not solved on an ongoing basis, nor have they been achieved in the current financial year. These are reflected as unachieved within this monitoring report.

Amber – Savings have been identified on an ongoing basis in the current financial year, however there is no clear evidence to support the delivery as yet.

Green – Savings have been identified on an ongoing basis in the current financial year, with evidence of delivery.

The RAG ratings are updated monthly to determine progress on delivery.

Table 3: 2019/20 Savings Proposals – Final Outturn

Service Area	Red £'000	Amber £'000	Green £'000	Total Savings £'000
Adult Services	1,166	-	4,231	5,397
Central DSG	-	-	-	-
Children's Services	737	-	171	908
Corporate Budgets	-	-	4,103	4,103
Finance, Governance and Assurance	-	-	589	589
Legal and Democratic Services	20	-	45	65
Place	3,621	-	2,695	6,315
Strategic Management Board	-	-	-	-
Workforce and Transformation	990	-	121	1,112
Council	**6,535**	**-**	**11,955**	**18,490**

7.2 The figures presented above show that 65% of the 2019/20 savings required were achieved and rated green with the remainder unachieved and rated red. Paragraph 7.4 below provides further detail on the red savings.

7.3 Table 4 provides further analysis of savings delivery impact on final position for each service area.

7.4 As per Table 3, £6.535m savings remain unachieved at outturn, some of which have been offset in part by one-off savings in year. However, when setting the Council's budget for 2020/21, growth funding has been applied in order to remove the 2019/20 red savings that have been determined to be undeliverable. Following the application of growth funding during the budget setting process, £3.606m of the red savings still remain within the Council's budget and are still required to be delivered, as the delivery of these savings targets was considered to be delayed rather than undeliverable. Delivery of these savings will be scrutinised at regular savings challenge meetings scheduled to take place with Directors throughout 2020/21. Red savings carried forward are listed below.

Ref	Directorate	Service Area	Description	2019/20 Saving Required (£)	Value Unachieved and Carried Forward to 2020/21 (£)
P41	Children's Services	Children's Services Management	Negotiate contract savings upon renewal through better contract management	46,490	20,460
P28	Place	Strategic Asset Management	Increased installation and use of solar panels	100,000	100,000

P34 & P39	Place	Head of Commercial Services	Land acquisition, development and investment	50,000	50,000
P66	Place	Director of Place	Innovation and efficiencies within Shire Services	126,100	101,100
P68	Place	Shire Services	Stretch income target within Shire Services	300,000	300,000
P72	Place	Director of Place	New Development Dividend	1,025,000	1,025,000
P69	Place	Highways and Transport	Infrastructure related to new development	100,000	100,000
P29	Place	Highways and Transport	Review of concessionary travel for Park & Ride	50,000	50,000
P41	Place	Director of Place	Negotiate contract savings upon renewal through better contract management	63,970	63,970
P59	Place	Highways and Transport	Increase income generated from car parks	400,000	400,000
P64	Place	Highways and Transport	Review of bus subsidies	405,000	105,000
P78	Place	Highways and Transport	Additional fleet management income	52,000	52,000
P75	Place	Outdoor Partnerships	Rights of way - risk based approach	50,000	50,000
P76	Place	Libraries	Libraries review	98,000	98,000
P80	Place	Culture, Leisure and Tourism	Heritage Assets – new operating model	£100,000	£100,000
R34	Workforce and Transformation	ICT Digital Transformation Project	Digital Transformation	990,430	990,430
			TOTAL	**3,956,990**	**3,605,960**

More detail on these, and all of the 2019/20 red savings, is provided within the relevant service sections of Appendix 1.

7.6. In addition to the red savings pressures, a number of ongoing pressures were identified within service areas during the year totaling £3.154m. £0.537m of these ongoing pressures have arisen as a result of previous years' unachieved savings. Ongoing pressures that have been identified are as follows:

Directorate	**Service / Description**	**Nature of Pressure**	**Value (£)**
Adult Services	Housing - Temporary Accommodation	Demography	403,873
Adult Services	Public Health - Out of Hours Call Service	Historic unachieved saving	24,800

Children's Services	Shrewsbury Training and Development Centre	Reduced income	42,000
Children's Services	Children's Social Care Placements	Staff budget / demography	475,500
Children's Services	Social Work Teams	Staff budget	19,310
Children's Services	Children's Social Care Agency Costs	Staff budget	145,300
Finance, Governance and Assurance	Revenues and Benefits	Reduced income (Housing Benefits subsidy)	573,150
Place	Corporate Landlord	Increased contract costs / reduced income	249,000
Place	Strategic Asset Management	Staff budget	88,000
Place	Shrewsbury Shopping Centres	Reduced rental income and increased costs of rates and insurance	429,000
Place	Planning Services	Building control emergency works	166,480
Place	Leisure Facilities	Staff budget / reduced income at in house facilities	26,000
Workforce and Transformation	Digital Services	Historic unachieved saving	17,000
Workforce and Transformation	DTP - Single Front Door / Face to Face Review	Historic unachieved saving	495,000
TOTAL			**3,154,413**

All of these budget pressures are forecast to impact budget positions in 2020/21. Significant further work is required within service areas to find an ongoing basis for managing and funding these pressures so that further growth is not required within the Financial Strategy, leading to an increase in the funding gap.

7.8 Table 4 below shows the impact of the ongoing pressures identified in 2019/20 on each service area's outturn position.

Table 4: Reconciliation of Monitoring Projections to Savings Delivery

	Controllable Outturn £000	Savings Pressure in 2019/20 £000	Ongoing Monitoring Pressures Identified £000	Ongoing Monitoring Savings Identified £000	One Off Monitoring Pressures Identified £000	One Off Monitoring Savings Identified £000
Adult Services Business Support & Development	(152)				198	(350)
Adult Services Management	44				155	(111)
Provider Services	(196)				230	(426)
Housing Services	46		404		130	(488)
Social Care Operations	613				1,809	(1,196)
Bereavement Services	(38)					(38)
Regulatory Services	(211)					(211)
Trading Standards and Licensing	(229)					(229)
Registrars and Coroners	(56)					(56)
Non Ring Fenced Public Health Services	284	207			116	(39)
Ring Fenced Public Health Services	781	959	25		91	(294)
Adult Services	**885**	**1,166**	**429**	**0**	**2,729**	**(3,439)**

	Controllable Outturn £000	Savings Pressure in 2019/20 £000	Ongoing Monitoring Pressures Identified £000	Ongoing Monitoring Savings Identified £000	One Off Monitoring Pressures Identified £000	One Off Monitoring Savings Identified £000
Central DSG	0				1,368	(1,368)
Central DSG	**0**	**0**	**0**	**0**	**1,368**	**(1,368)**
Learning & Skills	2,189	717	42		1,791	(362)
Children's Social Care & Safeguarding	4,697		640		5,089	(1,032)
Early Help, Partnerships and Commissioning	(235)				0	(235)
Children's Services Management	18	20			18	(21)
Children's Services	**6,668**	**737**	**682**	**0**	**6,898**	**(1,650)**
Corporate Budgets	(11,352)				371	(11,724)
Corporate Budgets	**(11,352)**	**0**	**0**	**0**	**371**	**(11,724)**
Audit Services	(80)					(80)
Finance	12				189	(176)
Pension Administration Services	4				4	
Revenues and Benefits	(118)		573			(691)
Treasury Services	(55)					(55)
Commissioning Development and Procurement	(280)			(100)		(180)
Risk Management and Insurance	(31)					(31)
Finance, Governance and Assurance	**(548)**	**0**	**573**	**(100)**	**193**	**(1,214)**
Democratic Services	(139)					(139)
Elections	(183)	20			8	(211)
Legal & Democratic Services	197				290	(93)
Legal and Democratic Services	**(125)**	**20**	**0**	**0**	**298**	**(443)**
Head of Commercial Services	64	50			14	
Corporate Landlord	777		249		870	(341)
Facilities Management	54	26			28	
Property Services	441				441	
Strategic Asset Management	322	100	88		134	
Commercial Investment Team	(527)					(527)
Shire Services	0	300			252	(552)
Director of Place	1,254	1,190			64	
Head of Economic Growth	1				1	
Planning Services	186		166		34	(14)
Economic Growth	(133)					(133)
Shrewsbury Shopping Centres	434		429		180	(175)
Broadband	(29)					(29)
Planning Policy	(174)					(174)
Head of Infrastructure and Communities	175				175	
Arts	(2)					(2)
Highways and Transport	2,241	1,007			2,520	(1,286)
Shropshire Hills AONB	(19)					(19)
Outdoor Partnerships	23	50				(27)
Leisure	272		26		281	(35)
Libraries	110	98			99	(87)
Museums and Archives	(38)				102	(140)
Theatre Services	60				60	
Waste Management	602	700				(98)
Head of Culture, Leisure and Tourism	162	100			79	(17)
Place	**6,256**	**3,621**	**958**	**0**	**5,334**	**(3,657)**
Strategic Management Board	(92)					(92)
Strategic Management Board	**(92)**	**0**	**0**	**0**	**0**	**(92)**
Customer Services	(342)				235	(577)

	Controllable Outturn £000	Savings Pressure in 2019/20 £000	Ongoing Monitoring Pressures Identified £000	Ongoing Monitoring Savings Identified £000	One Off Monitoring Pressures Identified £000	One Off Monitoring Savings Identified £000
ICT Digital Transformation Project	1,524	990	495		39	
ICT Services	(654)		17		243	(914)
Communications	(54)					(54)
Information, Intelligence and Insight	(152)					(152)
Human Resources &Organisational Development	(323)				98	(421)
Workforce and Transformation	**(0)**	**990**	**512**	**0**	**615**	**(2,117)**
TOTAL	**1,692**	**6,534**	**3,154**	**(100)**	**17,806**	**(25,702)**

7.8. The Council operates two internal funds to help deliver savings now and into the future. The Invest to Save Fund was established in 2014 enabling business cases to be put forward with the aim to generate savings and repay the investment back into the fund with interest. From an opening balance of £2.0m in 2014, additional investment into and repayments to the fund since have resulted in an opening balance of £3.920m in 2019. In total since the fund was created investment of £4.138m has been approved, of which £2.184m has been spent to date, and repayments totaling £1.900m have been made from projects. There are expected bids pending in 2020/21 that would fully commit the fund until further repayments have been achieved. The Development Fund was established for similar purposes, but where a proposal would not deliver a direct or short-term return on investment. Spend in year has totaled £0.768m, with approved commitments of £1.430m, leaving uncommitted funds of £0.097m year end. The base budget of £0.619m has been reduced as part of the savings strategy for 2020/21 to £0.319m, with additional one-off funding added to the fund at the end of 19/20, meaning that the total available funding for 20/21 to support appropriate schemes and investments stands at £0.717m.

8. General Fund Balance

8.1. The effect on the Council's reserves of the outturn is detailed below. The Council's policy on reserve balances is to have a General Fund balance (excluding schools balances) of between 0.5% and 2% of the gross revenue budget. For 2019/20 the minimum balance required would therefore be £2.842m, although this is no longer considered to be an acceptable guide.

8.2. The more appropriate risk-based target balance for the General Fund, as calculated in the Robustness of Estimates and Adequacy of Reserves section of the MTFS, reported to Council on 27th February 2019, is £16.071m in 2019/20, rising to £29.925m by 2024/25. These figures were significantly increased within the review, reflecting the remaining funding gap in these years as set out in the Financial Strategy, and the significant level of risk associated with the uncertainty over local government funding.

8.3. The Council has received one-off funding in 2019/20 of £0.210m to fund any cost implication arising from Brexit. This is in addition to the £0.105m received in 2018/19. The funding has been contributed to the General Fund as shown in table 5 below, as any residual costs arising from Brexit will have to be found from the General Fund balance. Expenditure in 2019/20 has been £0.044m, incurred within Regulatory Services.

8.4. In 2019/20 the General Fund has been used to pay for the emergency expenditure incurred during Storm Dennis, up to the value of the Bellwin threshold (£0.460m), as described above. The fund has also been used to offset Shire Services' deficit outturn position, as £0.082m deficit remained unfunded after drawing down Shire Services' earmarked reserve. This use of the General Fund effectively represents a loan to Shire Services which must be repaid in 2020/21.

8.5. Predominantly due to the outturn position, the General Fund balance has reduced at year-end to £13.510m, as shown in table 5 below. The balance remains significantly below the required risk assessed target, and has reduced by £2.027m (13%) since 31st March 2019.

Table 5: General Fund Balance as at 31 March 2020

General Fund Balance as at 31 March 2019	15,537
One-Off Brexit Funding for 2019/20	105
One-Off Brexit Funding for 2020/21	105
Brexit Expenditure	(44)
Net Increase in Brexit Funds Held	166
Use of Fund for Emergency Storm Dennis Expenditure	(460)
Use of Fund to Offset Shire Services' Deficit Position - to be repaid by Shire Services in 2020/21	(82)
Outturn Controllable Overspend	(1,692)
Outturn Non-Controllable Insurance Underspend	41
Net Reduction to Offset Overspend	(1,651)
Balance at 31 March 2020	**13,510**

9. Housing Revenue Account (Appendix 2)

9.1 The Housing Revenue Account (HRA) outturn for 2019/20 shows a surplus of (£0.327m) against a budgeted deficit of £3.780m, giving a (£4.106m) variance against the approved budget, which represents 23% of the gross turnover of £17.691m. The HRA was due to make a direct contribution of £4.898m to part finance the capital works programme for major repairs and building new affordable homes, however delays in these capital schemes have resulted in this spend being delayed and therefore this spend will instead be released in 2020/21. As at 31 March 2020 the HRA reserve stood at £10.1m and these funds are available to finance future HRA capital works or for the repayment of HRA debt.

10. Reserves and Provisions (Appendix 4)

10.1. The Council has created a number of specific reserves and provisions to provide for known or anticipated future liabilities and to assist in protecting essential services. Earmarked reserves are balances held for specific items that will occur in the future. Provisions are held to meet expenses that will occur as a result of past events and where a reliable estimate can be made of the obligation.

10.2. The overall position for reserves and provisions is set out in the Statement of Accounts 2019/20, however a detailed breakdown of the balances is contained at Appendix 4, with an explanation of each reserve and provision. These figures may be subject to change before the Council's final Statement of Accounts is produced. The change in revenue reserves and provisions are detailed in table 6 below. The level of reserves had decreased more significantly in 2019/20 than demonstrated below however due to the receipt of the first instalment of the COVID-19 grant of £8.97m on the 23rd March, this has resulted in this being carried forward in reserves to be utilised in 2020/21 as expenditure has arisen.

Table 6: Movement in Reserves and Provisions 2019/20

Balance Held	Reserves £000	Provisions £000	Bad Debt Provisions £000	Total Reserves & Provisions £000
As at 31 March 2019	71,726	12,410	12,260	96,396
As at 31 March 2020	67,993	14,466	13,580	96,039
Increase/(Decrease)	**(3,733)**	**2,056**	**1,320**	**(357)**
Delegated School Balances Movement	(2,288)	0	0	(2,288)
Increase/(Decrease) (excluding Delegated School Balances)	**(1,445)**	**2,056**	**1,320**	**1,931**

10.3. In accordance with the financial strategy the Council plans to use one off funding to close the funding gap between 2020/21 and 2021/22. This will result in the Financial Strategy Reserve reducing to zero by 2021/22 unless an alternative strategy is followed. It should be noted that this plan as per the MTFS was established before the COVID-19 pandemic that is affecting the 2020/21 financial year, and it may become necessary to utilise this reserve in 2020/21 instead. The balance of digital transformation funding is also held in the Development Reserve and this will be fully applied in 2020/21. Other Earmarked Reserves are expected to fall over the coming years for a number of reasons. It is difficult to project use with any accuracy, but balances would not be expected to fall to below £25m in the long term. The estimated future balances on earmarked reserves are as shown in table 7 below:

Table 7: Estimated Future Balances on Earmarked Reserves and Provisions

	Balance c/f	Estimated Closing Balance	
	2019/20	2020/21	2021/22

	£'000	£'000	£'000
Financial Strategy Reserve	20,802	20,502	0
Development Reserve	7,243	2,136	782
Other Earmarked Reserves	39,948	36,910	26,760
Provisions	28,046	28,046	28,046
Total	**96,039**	**87,594**	**55,588**

Delegated School Balances

10.4. The movement in delegated schools' balances are detailed in table 8.

Table 8: Movement in delegated schools' balances 2019/20

	2018/19 £000	2019/20 £000	Increase/ (Decrease) £000
Schools:			
- Revenue Balances	2,983	3,041	58
- Invested Balances	607	516	(91)
- Extended Schools Grant Balance	645	623	(22)
Sub Total within Schools	**4,235**	**4,180**	**(55)**
Purchasing IT equipment	(55)	(41)	14
DSG Deficit	0	(2,248)	(2,248)
Total Delegated School Balances	**4,180**	**1,891**	**(2,289)**

10.5. Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion. Of the 87 schools with balances, 82 schools have surplus balances and 5 have deficit balances.

10.6. The Extended Schools Grant allocations for schools were paid over during 2019/20, these balances have been ringfenced to each individual school within School Balances.

10.7. Following consultation with the school's forum and head teachers, the school balances have been used to purchase IT equipment for schools, the cost of this equipment is then recharged to schools over the life of that equipment, effectively operating as an internal leasing arrangement. At the end of 2019/20 £0.41m of the £4.180m was being used in this way.

10.8. In 2018/19 there was a deficit position on the Dedicated Schools Grant (DSG) where expenditure, particularly within the High Needs Block was in excess of the DSG funding received. This was temporarily funded from the Council's earmarked reserves in 2018/19. The balance was due to be repaid by schools as soon as possible, however this has not been possible in 2019/20, and the deficit has increased further. In addition, the Department for Education have now stated that any deficit balance should be held against school balances rather than the Council's earmarked reserves and so the cumulative deficit of £2.248m has reduced schools' balances down to £1.891m.

11. Original & Final Capital Programme for 2019/20

11.1 The capital budget for 2019/20 was subject to a review of all projects at Quarter 3 and re-profiling where required into future years with no further re-profiling into future years being anticipated during Quarter 4. However, in Quarter 4 it has been necessary to undertake further re-profiling. Additionally, in Quarter 4 there has been a net budget increase for 2019/20, compared to the position reported at Quarter 3 2019/20. In total, during Quarter 4 there has been a net budget increase of £9.710m. Table 9 summarises the overall movement, between that already approved, changes for Quarter 4 that require approval.

Table 9: Revised Capital Programme Quarter 4 2019/20

Detail	Agreed Capital Programme - Council 28/02/19 £	Slippage & Budget Changes Approved To Quarter 3 2019/20 £	Quarter 4 Budget Changes to be Approved £	Revised 2019/20 Capital Programme Quarter 4 £
General Fund				
Place	37,276,536	(594,495)	8,044,457	44,726,498
Adult Services	3,600,000	440,074	-	4,040,074
Public Health	230,000	(141,364)	-	88,636
Childrens Services	14,628,959	(6,381,707)	708,145	8,955,397
Resources & Support	5,000,000	(868,422)	1,020,224	5,151,802
Total General Fund	**60,735,495**	**(7,545,913)**	**9,772,826**	**62,962,408**
Housing Revenue Account	7,600,950	481,409	(62,887)	8,019,472
Total Approved Budget	**68,336,445**	**(7,064,504)**	**9,709,939**	**70,981,880**

11.2 Full details of all budget changes are provided in Appendix 5 to this report. A summary of the significant budget changes for 2019/20 and future years are detailed below:

Budget Increases

- Increase in Prudential Borrowing of £12.420m and £0.900m in relation to commercial investments as approved in the Capital Investment Strategy and the Children's Residential Care scheme respectively.
- Increase in government grants of £3.517m in relation to the North West Relief Road (NWRR) scheme following the award of Department for Transport (DfT) Local Majors funding of £54.406m.
- Increase in revenue contributions of £1.020m in relation to Invest to Save (I2S) ICT Upgrade capital schemes.
- Increase in government grants of £0.025m in relation to the Rapid Vehicle Electric Charging Points scheme following notification of additional DfT funding.
- Increase in Community Infrastructure Levy (CIL) of £0.500m in relation to the Shrewsbury Integrated Transport Programme (SITP).
- Increase in S106 Grant Scheme funding of £0.345m for Town and Parish Council schemes added to the programme.
- Increase in ERDF funding of £0.109m and revenue contributions of £0.095m in relation to the Corporate Landlord Sustainable Energy in Public Sector Buildings (SEPuBU) programme.

- Increase in government grants of £0.157m in relation to the Schools Full Fibre Broadband programme following the award of Department for Education (DfE) Full Fibre Broadband Grant.
- Increase in Section 106 and private sector contributions of £0.149m and £0.009m respectively in relation to integrated transport schemes.
- Increase in private sector contributions of £0.075m in relation to the Broadband scheme.
- Increase in Corporate Landlord Revenue Contributions to specific schemes of £0.162m.
- Increase in schools Revenue Contributions to specific schemes of £0.014m.

Budget Decreases

- Reduction of £0.347m in capital receipts requirement in relation to Corporate Landlord scheme following confirmation that the scheme is no longer proceeding.
- Transfer of One Public Estate Funding of £0.075m to Clinical Commissioning Group (CCG).
- Reduction of £0.063m in capital receipts requirement in relation to the HRA Housing New Build Phase 5 scheme to match anticipated expenditure profile.
- Reduction in schools' DFC allocations of £0.018m as a result of an academy conversion.
- Reduction in diocese contribution to specific schools' scheme of £0.017m.
- Reduction in I2S revenue contributions of £0.001m required in relation to the Corporate Landlord SEPuBu programme.

Budget Re-profiling

- **Place:** re-profiling of £8.945m Prudential Borrowing in relation to commercial investments to reflect expected expenditure at outturn.
- **Children's Services:** re-profiling of £0.014m capital receipts, £0.156m Early Years Capital Grant and £0.153m Basic Need Grant Other Contributions in relation to both the School Place Plan Programme (£0.198m) and Early Years schemes (£0.125m) to match the anticipated expenditure profile and reflect expected expenditure at outturn respectively.

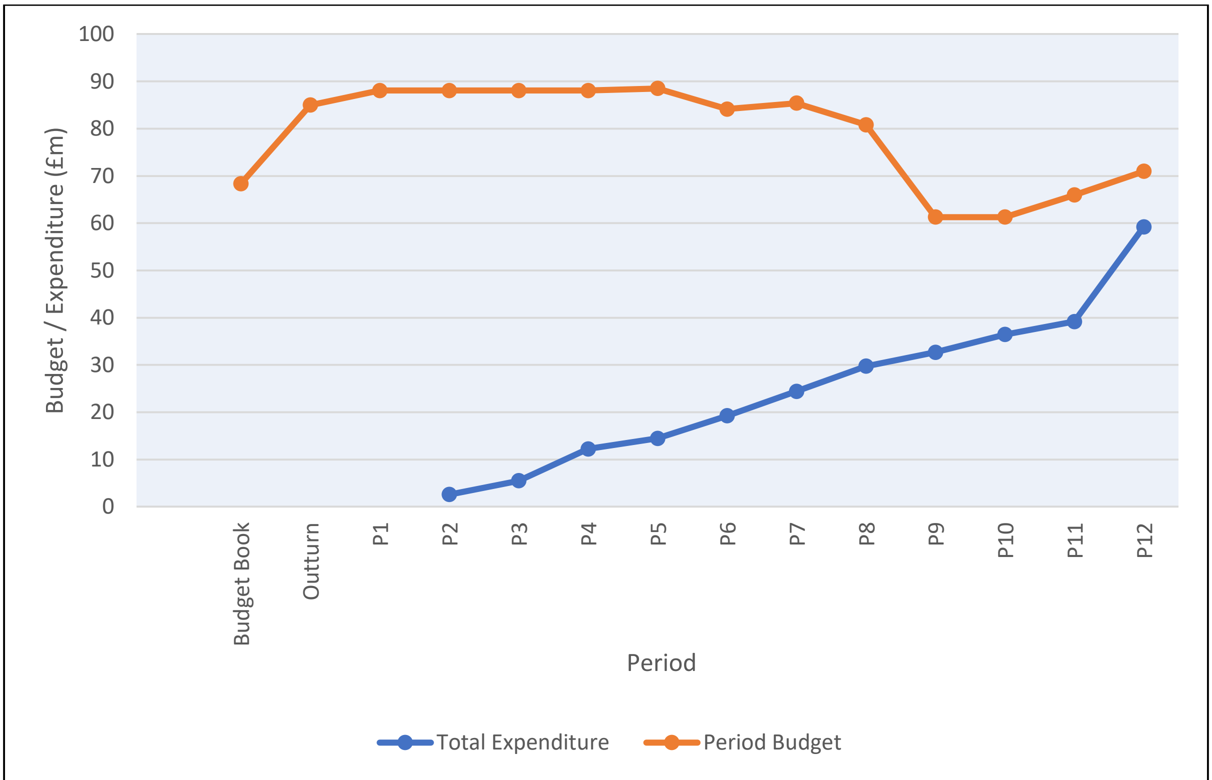
12. Capital Outturn Position

12.1. The capital programme is reviewed on a regular basis to re-profile the budget to reflect the multi-year nature of capital schemes, whereby spend may slip into later years. However, it is possible that a level of underspend or overspend may be experienced against the revised capital budget at outturn. Outturn projections are incorporated into the capital monitor to enhance the monitoring information provided and allow the early identification where schemes are deviating from budget. Table 10 summarises the outturn position for 2019/20.

Table 10: Capital Programme Outturn Position by Service Area 2019/20

Detail	Revised Capital Programme - Outturn 2019/20 £	Actual Expenditure 31/03/2020 £	Variance £	Spend To Budget %
General Fund				
Place	44,726,498	39,043,092	5,683,406	87%
Adult Services	4,040,074	3,089,165	950,909	76%
Public Health	88,636	81,509	7,128	92%
Childrens Services	8,955,397	6,869,768	2,085,629	77%
Resources & Support	5,151,802	4,156,901	994,902	81%
Total General Fund	**62,962,408**	**53,240,435**	**9,721,973**	**85%**
Housing Revenue Account	8,019,472	5,968,912	2,050,560	74%
Total Approved Budget	**70,981,880**	**59,209,347**	**11,772,533**	**83%**

12.2. Total capital expenditure for 2019/20 was £59.209m, which equated to 83% of the re-profiled capital programme of £71.981m. The graph below shows actual expenditure by period and tracks the period by period changes to the budget.



12.3. There was a total variance of £11.773m between the revised Outturn Budget and the Outturn Expenditure. All of this underspend will be slipped to 2020/21 to facilitate completion of projects commenced in 2019/20. Full details of expenditure variances are in Appendix 5. A summary of significant variances by service area are provided below.

12.4. **Place** - Total underspend against the Place capital programme was £5.683m. The most significant areas of underspend are:

- £0.908m against the Broadband Project due to reprofiling with BDUK.

- £0.720m against the North West Relief Road scheme, this has been carried forward into 2020/21 as the project develops.
- £0.700m against the local transport plan due to storm and flood re-prioritisation of staff and the underspend has been carried forward into 2020/21.
- £0.706m against Corporate Landlord. £0.280m of this is against the Ellesmere Remediation scheme.
- £0.650m against the Commercial Investment Programme.
- £0.634m against LEP schemes, primarily SITP (£0.482m).
- £0.327m against Parking Strategy - Car Park Machines.
- £0.300m against Bridges and Structures due to storm and flood re-prioritisation of staff and the underspend is carried forward to 2020/21.
- £0.277m against Physical Regeneration schemes, £0.251m of which relates to Oswestry HIF.
- £0.130m against Planning Policy - Affordable Housing schemes.
- £0.100m against drainage due to storm and flood re-prioritisation of staff and underspend has been carried forward into 2020/21.
- Various other minor underspends have occurred on projects across other areas of Place & Enterprise.

12.5. **Adult Services** - Total underspend against Adult Services was £0.951m. This was £0.314m on Social Care schemes and £0.637m on Housing Health & Wellbeing. Within Housing Health & Wellbeing, £0.462m is against Disabled Facilities Grant (DFG), despite significant re-profiling at Quarter 3. This is simply due to the nature of the grant awards and assessment timeframes. A further £0.175m is against the HOLD scheme. This is due to genuine delays in securing mortgages from providers resulting in low grant awards to assist purchase. The scheme will continue in 2020/21 with continued Government support.

12.6. **Public Health** - Total underspend against the Public Health capital programme was £0.007m. This was entirely in relation to Private Sector Housing Empty Property Incentive Grants.

12.7. **Children’s Services** - Total underspend against the Children’s Services capital programme was £2.086m. The most significant areas of underspend were £0.618m in Children’s Residential Care, £0.663m on Basic Need schemes, £0.157m on Full Fibre schemes and £0.538m on Condition schemes. These overspends occurred despite re-profiling in year.

12.8. **Resources & Support** - Total underspend against the Resources & Support capital programme was £0.995m in relation to the ICT Digital Transformation Programme.

12.9. **Housing Revenue Account** - Total underspend against the HRA programme of £2.051m, of which £1.464m was on the Major Repairs Programme and £0.500m was on the New Build Programme.

13. Financing of the Capital Programme

13.1. Appendix 5 provides a full summary of the financing of the 2019/20 capital programme. Table 11 summarises the financing sources and changes made to Quarter 3 and to be approved to Quarter 4.

Table 11: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 28/02/19 £	Slippage & Budget Changes Approved To Quarter 32019/20 £	Quarter 4 Budget Changes to be Approved £	Revised 2019/20 Capital Programme Quarter 4 £
Self Financed Prudential Borrowing *	4,252,000	1,104,420	4,375,000	9,731,420
Government Grants	38,254,230	(3,704,688)	3,297,334	37,846,876
Other Grants	50,040	895,713	183,787	1,129,540
Other Contributions	2,899,459	646,745	987,244	4,533,448
Revenue Contributions to Capital	4,214,293	(1,193,504)	1,290,724	4,311,513
Major Repairs Allowance	3,900,950	652,649	-	4,553,599
Corporate Resources (expectation - Capital Receipts only)	14,765,473	(5,465,839)	(424,150)	8,875,484
Total Confirmed Funding	**68,336,445**	**(7,064,504)**	**9,709,939**	**70,981,880**

***** Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

13.2 Within the financing of the Capital Programme £4.312m is funded from revenue contributions. The major areas of revenue contributions to capital are in ringfenced HRA monies to undertake major housing stock repairs (£0.761m) and new build schemes (£1.700m), ICT Upgrades (£1.020m) and essential repairs in relation to the Corporate Landlord estate (£0.688m).

14. Projected Longer Term Capital Programme to aid Medium Term Financial Plan

14.1. The updated capital programme is summarised by year and financing in Table 12 below:

Table 12: Capital Programme 2020/21 to 2022/23

Service Area	2020/21	2021/22	2022/23
General Fund			
Place	74,232,860	56,934,566	75,709,635
Adult Services	8,237,606	3,200,000	3,200,000
Public Health	267,127	-	-
Childrens Services	17,869,859	11,000,000	5,500,000
Resources & Support	2,394,901	-	-
Total General Fund	**103,002,353**	**71,134,566**	**84,409,635**
Housing Revenue Account	24,306,173	18,700,000	18,700,000
Total Approved Budget	**127,308,526**	**89,834,566**	**103,109,635**
Financing			
Self Financed Prudential Borrowing *	41,780,062	30,910,000	30,910,000
Government Grants	48,791,451	34,244,172	61,499,635
Other Grants	1,140,154	-	-
Other Contributions	13,964,196	13,565,277	-
Revenue Contributions to Capital	4,906,890	2,014,293	2,000,000
Major Repairs Allowance	5,879,247	3,700,000	3,700,000
Corporate Resources (expectation - Capital Receipts only)	10,846,526	5,400,824	5,000,000
Total Confirmed Funding	**127,308,526**	**89,834,566**	**103,109,635**

***** Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

14.2. The Corporate Resources financing line above is the element of internal resources through capital receipts and corporately financed prudential borrowing required to finance the programme. Current expectation is these will all be through capital receipts, see Section 15 for the current projected position. The Capital Investment Board continues to consider proposals for new schemes for the Council to invest in, with an emphasis on invest to save schemes and schemes that create revenue generation.

15. Capital Receipts Position

15.1 The current capital programme is heavily reliant on the Council generating capital receipts to finance the capital programme. There is a high level of risk in these projections as they are subject to changes in property and land values, the actions of potential buyers and being granted planning permission on sites. Table 13 below, summarises the current allocated and projected capital receipt position across 2019/20 to 2022/23. A RAG analysis has been applied for capital receipts projected, based on the current likelihood of generating them by the end of each financial year. Those marked as green are highly likely to be completed by the end of the financial year, amber are achievable but challenging and thus there is a risk of slippage, and red are highly unlikely to complete in year and thus there is a high risk of slippage. However, no receipts are guaranteed to complete in this financial year as there may be delays between exchanging contracts and completing.

15.2 Capital receipts of £20.478m were brought forward from 2018/19 and £5.135m was generated in 2019/20. As previously reported, following the re-profiling in the capital programme and mid-year review of the programme, enough receipts have been generated to finance this year's capital programme without any corporate prudential borrowing. Of the receipts generated in year, £2.329m has been used to finance redundancy costs under the recent flexibilities around the use of Capital Receipts for transformation revenue purposes.

Table 13: Projected Capital Receipts Position

Detail	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Corporate Resources Allocated in Capital Programme	5,003,870	8,423,566	5,400,824	-
Capital Receipts used to finance redundancy costs	2,329,434	-	-	-
To be allocated from Ring Fenced Receipts	-	14,158,758	-	-
Total Commitments	**7,333,304**	**22,582,324**	**5,400,824**	**-**
Capital Receipts in hand/projected:				
Brought Forward in hand	20,478,421	18,280,241	464,849	(4,935,975)
Generated 2019/20 YTD	5,135,125	-	-	-
Projected - 'Green'	-	4,766,932	-	-
Total in hand/projected	**25,613,546**	**23,047,173**	**464,849**	**(4,935,975)**
Shortfall to be financed from Prudential Borrowing / (Surplus) to carry forward	**(18,280,241)**	**(464,849)**	**4,935,975**	**4,935,975**
Further Assets Being Considered for Disposal	**-**	**26,941,235**	**8,623,404**	**-**

15.3 Following the underspend position for the capital programme for 2019/20 and the Council policy of applying un-ringfenced capital grants in place of capital receipts where they are not required in full due to scheme underspends, the Council has £19.619m in capital receipts in hand at 31/03/20. These will be set-aside, enabling the Council to achieve an additional MRP saving of £0.693m in 2020/21. These capital receipts are required to finance schemes they are allocated to in the future years' capital programme.

15.4 Based on the current approved position, across the life of the programme there is a small surplus in capital receipt projections of £0.465m in 2020/21 and a shortfall of £4.936m in 2021/22 based on receipts rated green in the RAG analysis to fund the required budget in the capital programme. There is, therefore, the requirement to progress the disposals rated amber and red which total £35.565m to ensure they are realised, together with realising the revenue running cost savings from some of the properties. Considerable work is required to realise these receipts, with generally a lead in time of at least 12 to 18 months on larger disposals. In addition to the current expenditure commitments, the programme will also grow as new schemes are approved through the Capital Investment Board.

15.5 It is important that work progresses, to avoid a funding shortfall in 2020/21 and minimise any shortfall in future years. Failure to generate the required level of capital receipts will result in the need to further reduce or re-profile the capital programme, some of which will occur naturally as part of the review of the delivery of schemes; or undertake prudential borrowing, which will incur future year's revenue costs that are not budgeted in the revenue financial strategy.

15.6 The projected shortfall in capital receipts is purely based on the currently approved capital programme for the period 2020/21 to 2022/23. The current Capital Strategy 2020/21 to 2024/25, approved by Council in February 2020, identifies potential future capital schemes with estimated costs of £402.422m. It is prudent for schemes which are not anticipated to generate additional income to be funded from capital receipts. This will further increase the future pressure on capital receipts generation.

16. Unsupported borrowing and the revenue consequences

16.1. The Council can choose what level of unsupported (prudential) borrowing to undertake to fund the capital programme, based on affordability under the prudential code. There is an associated revenue cost to fund the cost of the unsupported borrowing. This consists of the Minimum Revenue Provision (MRP) charge for the repayment of the principal amount, based on the asset life method and the interest charge associated with the borrowing. The current PWLB borrowing rate over 25 years is around 2.40% and is currently only projected to rise by around 0.30% across the next 18 months. As covered in Section 15 above there are insufficient receipts in hand/projected to finance the existing approved programme. If there were to be a requirement for new schemes financed from borrowing, this could be accommodated from within existing borrowing and current cash balances in the short term, without the requirement to undertake new borrowing. This would, however, create an additional MRP cost, which would need to be met from the revenue budget.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Revenue and Capital Budget 2019/20 Financial Rules Financial Monitoring Report – Quarter 1 2019/20 Financial Monitoring Report – Quarter 2 2019/20 Financial Monitoring Report – Quarter 3 2019/20
Appendices 1. Service Area Outturn 2019/20 2. Housing Revenue Account 2019/20 3. Amendments to Original Revenue Budget 2019/20 4. Reserves and Provisions 2019/20 5. Capital Budget and Expenditure 2019/20

Appendix 1

Service Area Outturn 2019/20

Summary

	Full year				FOR INFO ONLY		
Directorate	**Net Budget £**	**Controllable Outturn £**	**Controllable Variation £**	**RAG BY**	**Outturn (incl. Non Controllable items*) £**	**Non Controllable Variation £**	**Total Variation £**
Adult Services	107,822,930	108,708,418	885,488	G	109,080,339	371,921	1,257,409
Central DSG	-	-	-	G	-	-	-
Children's Services	49,862,833	56,530,881	6,668,048	R	57,167,120	636,240	7,304,287
Corporate Budgets	(5,235,570)	(16,587,912)	(11,352,342)	Y	(18,456,407)	(1,868,495)	(13,220,837)
Finance, Governance & Assurance	2,828,070	2,280,326	(547,744)	Y	2,325,409	45,082	(502,661)
Legal & Democratic Services	505,730	380,318	(125,412)	Y	391,924	11,606	(113,806)
Place	57,655,110	63,911,265	6,256,155	R	64,481,128	569,863	6,826,018
Strategic Management Board	(14,230)	(106,728)	(92,498)	Y	(107,119)	(392)	(92,889)
Workforce & Transformation	413,887	413,719	(168)	Y	607,393	193,675	193,506
TOTAL	**213,838,760**	**215,530,287**	**1,691,527**	**G**	**215,489,786**	**(40,500)**	**1,651,026**

*The non-controllable items included in the table above include items such as depreciation, impairment of assets, other capital charges and IAS19 (pension costs)) that are not included within service projections throughout the year. These charges are produced at the year-end as they are calculated as part of the closedown procedures. The budgets for the year are set in the February of the preceding financial year, and rather than reallocate these budgets at the year end to match where the accounting entries are processed, we allow variations from budget to be reported instead. With the exception of insurance costs, the net effect of these variations across the Council will always be nil, as any overspends within non-controllable budgets for service areas will be offset by a Corporate underspend which reflects the statutory requirement that any variations in these budgets should not impact on the Council Tax payer and ultimately the Council Tax that we charge.

Detail of Controllable Outturn and Variations

ADULT SERVICES		Full Year			**RAGY**
		Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total		**107,822,930**	**108,708,418**	**885,488**	G

Adult Services Business Support and Development	**Portfolio Holder Adult Social Services and Climate Change**	3,420,180	3,267,959	(152,221)	Y

There is an underspend within Business Support and Development of (£0.152m) which is largely due to a number of managed vacancies across the service. The vacancies are not sustainable beyond the short-term, but have not impacted service delivery in 2019/20. A summary of the major variances are as follows: • (£0.084m) underspend on Business Support. This is largely down to staffing and costs associated with the posts, due to delays in appointing to vacant posts and staff movements within the service. • (£0.042m) underspend on Joint Training and the Professional Development Unit which relates to reduced service delivery and staffing costs. This is offset by an under achievement of income/loss of grants. • (£0.024m) underspend on Project costs where we have not managed to roll budget into service delivery. There will be a corresponding overspend within Social Care Operations.					
Adult Services Management	**Portfolio Holder Adult Social Services and Climate Change**	2,667,680	2,711,984	44,304	G
There is an overspend within Adult Services Management of £0.044m. A summary of the major variances are as follows: • (£0.056m) underspend on staffing due to in year delays in recruitment to Service Manager posts. • £0.050m overspend on the Apprenticeship Levy. • £0.050m one-off overspend on IT consultancy charges due to investment in new technology.					
Provider Services	**Portfolio Holder Adult Social Services and Climate Change**	2,787,890	2,592,026	(195,864)	Y
There is an underspend within Provider Services of (£0.196m). The major variances are as follows: • (£0.154m) underspend on preventative services contracts and increased Shared Lives Housing Benefit. This is a one-off saving in year. • (£0.262m) underspend across all Day Services. (£0.101m) due to in year staffing vacancies. (£0.057m) due to overachievement of CHC income and (£0.104m) due to reducing the provision for bad debt. • £0.066m historic overspend relating to Four Rivers Nursing Home, due to higher than budgeted staff costs, including agency spend of £0.148m. • £0.156m overspend relating to the START teams, this is due to the growth of the service to take over cases previously dealt with by external providers. There is a corresponding underspend in Social care Operations.					
Housing Services	**Portfolio Holder Housing and Strategic Planning**	3,199,410	3,245,651	46,241	G
There is an overspend within Housing Services of £0.046m. The major variances are as follows: • (£0.007m) underspend on staffing due to in year staff vacancies. • (£0.052m) net effect of over-achievement of income targets linked to savings plans. These have been built into 20/21 income savings • £0.052m increase of bad debt provision • £0.053m net effect of temporary accommodation overspend of £0.404m, which was offset by the use of one-off flexible homelessness grant and reserves (£0.350m)					
Social Care Operations	**Portfolio Holder Adult Social Services and Climate Change**	91,087,340	91,700,698	613,358	G
There is an overspend of £0.613m within the Social Care Operations section of Adult Services. The major variances are as follows: • £1.398m overspend within the purchasing budget. Although we have not seen a material increase in service user numbers there are more service users with complicated needs aged 18-24 that are higher costs than elderly low level support service users. Coupled with growing average weekly costs of care, this has led to an overspend in provision. Growth allocated in 20/21 should solve this problem. We have also increased the bad debt provision in this area, which equates to £0.180m of the overspend. • (£0.424m) underspend on all operational social work staffing due to delays in appointing to a number of staff vacancies. This is not sustainable in the longer term. • £0.041m overspend within maintenance costs across social care operations mainly with regards to occupational therapy equipment and supported living properties. • £0.136m overspend on transport costs. • (£0.537m) underspend on OT equipment. A decision was made to fund this spend from Capital monies which has freed up the revenue budget					
Bereavement Services	**Deputy Portfolio Holder Public Health**	(217,880)	(256,371)	(38,491)	Y
Overall, an underspend of (£0.038m) is reported, as work on grounds maintenance has improved the cemetery areas and resulted in a greater number of burial plots available for sale, increasing Council revenues.					

Regulatory Services	**Portfolio Holder Communities, Place Planning and Regulatory Services**	3,061,800	2,850,589	(211,211)	Y
An underspend of (£0.211m) is reported due to a number of vacant posts within the service and the long term secondment of a Team Manager. Plans are in place to appoint to the vacant posts and the budget for the Team Manager is required to be held substantively; therefore the underspend variance is not sustainable beyond the short term.					
Trading Standards and Licensing	**Portfolio Holder Communities, Place Planning and Regulatory Services**	960,050	730,801	(229,249)	Y
(£0.145m) of the (£0.229m) variance is as a result of overperformance on Penalty Charge Notice income compared with the annual target set. Penalty Charge Notice income generated as a result of Parking Enforcement activities are performed on a cost recovery basis and therefore any surplus is reinvested into the delivery of the services. The remaining underspend variance of (£0.084m) is due to a number of vacant posts within the service and long term absences. Plans are in place to appoint to the vacant posts and therefore this underspend variance is not sustainable beyond the short term.					
Registrars and Coroners	**Deputy Portfolio Holder Public Health**	795,530	739,257	(56,273)	Y
An underspend of (£0.056m) is reported due to lower than expected Coroner fees and higher than budgeted Registration Fee income. The Registration service continues to operate commercially in order to maximise income and control its costs and has delivered £0.040m of savings in 2019/20.					
Non Ring Fenced Public Health Services	**Deputy Portfolio Holder Public Health**	33,250	317,282	284,032	R
Public Health services funded from Council budgets have been reviewed and savings have been made through the decommissioning of non-mandatory services and staffing restructures. The intention to close the Shrewsbury CCTV monitoring service to generate a saving has now been rescinded and therefore the operating costs of this service are a £0.225m cost pressure to the Council in 2019/20. This includes previously unachieved savings of £0.113m on the CCTV budget. Discussions are ongoing with partner organisations in order to identify potential funding streams to offset annual operating costs. In addition to this, a number of savings were not fully achievable in 2019/20 as they are subject to statutory time scales, such as 45 day consultation periods in relation to staffing restructures, leading to a delay in achievement. Therefore, Non Ring Fenced Public Health services are reporting an overspend of £0.284m in 2019/20.					
Ring Fenced Public Health Services	**Deputy Portfolio Holder Public Health**	27,680	808,542	780,862	R
Services funded from the Ring Fenced Public Health grant have been reviewed and savings have been made through the decommissioning of non-mandatory services and from the realisation of synergies as Public Health has been subsumed within the Adult Services directorate from 1st April 2019. A number of savings from the Ring Fenced funded services have been delayed and were therefore not fully achievable in 2019/20 as they are subject to statutory time scales, such as 45 day consultation periods in relation to staffing restructures. A restructuring of the Substance Misuse team to work more closely with the Adult Social Care commissioning team has been implemented on 1st October 2019, resulting in redundancies from the existing Public Health team. Further savings achieved include the decommissioning of non-mandated services provided by Help2Chang. This has resulted in staff redundancies and a reduction in services from 1st September 2019. Further pressures on the Public Health budget include unachievable savings which have been committed in prior financial years, however, the cost pressures remain in the service and impact on the level of savings that can be achieved; this includes pathology services, FP10 prescribing, inpatient beds and Children and Young People's hubs. In addition, cost pressures remain due to; increasing costs and expenditure on prescribing (a nationally identified budget pressure) which has exceeded budgeted levels, and the out of hours call monitoring contract which is resulting in an overspend as the financial resources allocated have been removed as savings. Work continues to review services and budgets in order to identify opportunities to reduce the overspend in Public Health services and to return the services to financial balance in future years.					

CENTRAL DSG		Full Year			RAGY
		Budget £	Controllable Outturn £	Controllable Variance £	
Total		-	-	-	G
Central DSG	**Deputy Portfolio Holder Education**	-	-	-	G

There was an overspend of £1.368m against the Central DSG budget. This is the in-year deficit which when added to last year's deficit of £0.879m results in the Central DSG reporting a cumulative deficit of £2.247m.

The Department for Education requires Local Authorities to submit a DSG deficit recovery plan in the event that their cumulative DSG overspend at the end of a financial year, exceeds 1% of their DSG allocation. Given that Shropshire's DSG allocation for 2019-20 is currently £204.587m the 1% threshold is equal to £2.046m and therefore the cumulative deficit position being reported of £2.247m breaches this limit and triggers the requirement for a detailed DSG deficit recovery plan to be submitted to the Department.
To recover this deficit and bring the Central DSG back into balance, a task and finish group comprising various stakeholders has been exploring strategies to generate savings to be included in this plan. The focus of their work has been the High Needs Block.

£1.127m of the £1.368m overspend on Central DSG related to the High Needs Block of DSG where the total High Needs budget was £26.165m comprising a published High Needs Block DSG allocation of £25.768m plus the transfer of £0.397m from the Schools Block of DSG to the High Needs Block DSG as approved by Schools Forum. The main budget pressures related to top-up funding to mainstream settings (£0.270m), post 16 further education colleges (£0.488m) and independent special school placements (£0.175m).

The overspend on independent special school placements mirrors the national picture being reported by the f40 group of local authorities, concluding increasing demand for independent special school placements, and higher contributions from education towards joint social care placements signalling increasing complexity of children's needs. The overspend on Post 16 further education is also a national pressure. The Council has and will continue to experience significant expenditure growth in this area as a direct result of changes in legislation which has seen local authorities having significant new statutory duties for students with special educational needs up to the age of 25 years under the Childrens and Families Act (September 2014). As a result, Shropshire has seen a sharp increase in students with SEN requiring additional support in further education year on year. The local authority's SEN team work closely with local colleges to increase accessibility to education within mainstream colleges rather than more expensive independent specialist providers.

The outturn position for the Early Years Block of DSG is an overspend by £0.558m on a provisional budget of £15.565m. This overspend was identified once the Spring Term Nursery payments for two, three and four year olds had been processed. The main reason for this pressure is a large overspend in relation to the Early Years allocations for two, three and four year old nursery entitlement. The Council has experienced a higher take up of provision in this year than previously resulting in a greater draw on the funding. Across the course of the year there were more children taking up provision over the course of the year for whom the Council receives funding through the Early Years National Funding Formula. The Council will receive some compensation for this when the 2019/20 funding allocation is revised to take account of the January 2020 census figures. However, we will only receive 5/12ths of the full year funding for those additional children.

There are one-off budget monitoring pressures and savings on some Central DSG budget areas which partially offset the large overspends on the Early Years and High Needs Blocks of DSG to give the in-year deficit position of £1.367m.

CHILDREN'S SERVICES		Full Year			RAGY
		Budget £	Controllable Outturn £	Controllable Variance £	
Total		**49,862,833**	**56,530,881**	**6,668,048**	R
Children's Social Care and Safeguarding	**Portfolio Holder Children's Services**	30,463,983	35,160,958	4,696,975	R

Although there were no unachieved savings targets in Children's Social Care and Safeguarding in 2019/20 the service continued to experience ongoing budget pressures which reflects the national picture.

The largest budget pressure of £1.271m was caused by agency staffing costs in the social work teams. This pressure has continued from previous years. It is necessary to ensure that children who are looked after, on a Child Protection Plan or children in need of a plan are adequately supported in line with statutory timescales and this will dictate that sickness, maternity or temporary vacancy must be covered in the interim through agency staff. There is also a heavy reliance on agency social workers due to the number of social worker vacancies and the challenges in recruiting to vacant posts. The service remains focused on recruitment and retention with the identification of a dedicated HR worker to support with the timely recruitment of social workers. The recruitment campaign for children's services has been reviewed and updated and we are part of two graduate programmes for social work including Frontline and Step Up. The service has also recently appointed 8 social work apprentices. A retention payment has been made available to retain social workers in the teams that are hardest to recruit. This strategy in itself led to a further one-off budget pressure of £0.160m on staffing but this strategy should reduce costs over the longer term. There has been some success in recruiting to a number of social worker posts in the latest round of recruitment, however as a number of the new starters are inexperienced, agency workers will be required to stay in post for a limited time to support these new social workers until such time that they are able to take on full caseloads. Due to increasing caseloads as a result of increasing Looked-after-children (LAC) numbers in 2018-19 there are currently a number of additional capacity agency social workers who are not covering vacant posts but taking on additional caseloads or supporting ASYE's with their caseloads. It is estimated that £0.165m of the £1.271m overspend related to these additional capacity agency workers.

There is a highly complex financial position across Children's Placements in 2019/20. In the summer of 2018 a detailed Children's Placements growth modelling exercise was undertaken to understand the budget required for Children's placements for 2019/20 and ongoing taking account of a projected increase in Looked-after-children (LAC) numbers, contributions towards these placements from other partners and existing strategies to manage the budget pressures e.g. growth of internal residential homes. The result of this exercise was to build £2.294m expenditure growth into the Children's Placements budget for 2019/20 with this growth allocated across both residential and fostering placements as forecast in the growth modelling exercise. Due to this growth in budget there was a relatively small budget pressure of £0.782m on external residential placements and both internal and external fostering budgets. A commissioning and contracts manager was appointed earlier in the financial year to scrutinise high cost residential placements with private providers where the Council is incurring additional costs relating to the child, which may include 1:1 or 2:1 levels of care, therapeutic intervention and education provision. By providing monitoring of these placements to provide assurance of value for money and challenge as to whether the increased levels of support often provided at a start of a placement could be reduced, this post has successfully managed to generate in-year savings of £0.109m therefore reducing the overall budget pressure as well as covering it's own cost.

At the end of the 2018/19 financial year, the Council embarked on a strategy to develop additional in-house internal residential provision. There has been capital investment of £0.710m to acquire 3 properties with the aim that these 3 children's homes will deliver revenue savings through supporting a few of the children in our highest cost placements at a lower cost than the market rate. One home has opened in February and is operational while the second home is anticipated to open once Ofsted have undertaken their inspection and assessment. This process has been delayed due to Covid-19. For this second home, some residential care staff have been recruited and have started their roles in advance of the opening in order to undertake the necessary training. This home was planned to open in April but this has been delayed due to the impact of Covid-19. A third property has been purchased but no staff have been appointed for this home. In the meantime, there was an overspend of £0.524m from the work required in this interim period, however this is being categorised as a one-off pressure as the homes should generate savings on external placements once fully operational.

Children's Safeguarding are committed to increasing foster placement sufficiency so that the Council can care for more looked after children within a family environment. This is not only in the best interests of the majority of looked after children but will lead to significant financial savings. The aim is to increase the pool of foster carers and look to identify and support foster carers with looking after more complex children. This will reduce demand for expensive residential provision. An ongoing monitoring pressure of £0.271m relates to increased capacity built into the Children's Placement Service to enable the recruitment of more carers and retain and support current carers. A business case was approved to permit this.

Elsewhere, there was also an ongoing budget monitoring pressure of £0.297m being reported in the Adoption Service. This relates specifically to Special Guardianship Allowances. No growth was built into the budget for 2019/20, however we have continued to see an increase in Special Guardianship Orders issued. These are less costly options than residential or fostering placements and give a child more permanence than a regular fostering arrangement. The increase in SGOs mirrors the national trend where there has been a steep increase in the number of SGOs over the past 8 years. Significant expenditure growth has been built into 2020/21 budget to address this pressure.

There was a budget pressure of £0.125m against the Leaving Care Team. Following changes in statutory guidance that mean that; Personal Advisors are now required to offer support to all care leavers up until the age of 25 years (an increase from the previous age of 21 years), this means that young people will be remaining in the service for longer increasing capacity issues within the team. As a result of this and recommendations from a Department for Education National Advisor on Care Leavers and a "requires improvement" Ofsted judgement, a number of strategies have been put in place to address this. One such strategy that was agreed via a business case was to increase the number of Personal Advisors in the team and to enhance the offer available to care leavers. Expenditure growth has been built into 2020/21 budget to address this pressure.

There was a one-off pressure of £0.347m in the Disabled Children's Team. The majority of this relates to an increase in Disabled Children's Team Direct Payments and prevention and support payments. This is being categorised as one-off rather than ongoing as some of this increased expenditure will be a direct consequence of the temporary closure of the Council's commissioned overnight short breaks provision.

The bad debt provision for the service area has been increased by £0.343m in 2019/20 following a detailed review of the service's aged debt and the likelihood of this being recovered. This has led to not only a £0.343m overspend being reported but an increase of £0.343m compared to the position previously reported due to the timing of this decision.

The remaining £0.576m forecast overspend relates to one-off monitoring pressures on non-staffing budgets such as barrister fees, transport recharges and interpreting fees across several social work teams.

Early Help, Partnerships and Commissioning	**Portfolio Holder Children's Services**	2,024,260	1,789,211	(235,049)	Y

One-off monitoring savings have been in achieved in various teams within the Early Help budget area. £0.156m of the overall underspend of £0.235m relates to Family Hubs where a combination of underspends against premises related budgets for the 6 new Family Hubs and in year vacancy management has delivered one-off savings.

An underspend totalling £0.053m relates to the Early Help Commissioned Services budget and specifically the early achievement of a 2020/21 savings target.

An underspend of £0.016m is reported against the Local Youth Commissioning budgets. On 22nd January 2020, Cabinet approved to cease the current commissioning model and agree a new model of Targeted Youth Support which will be managed in-house as part of Shropshire's Early Help provision. On the basis that this new delivery model will require additional investment to reduce the demand in Children's Social Care it is considered that this underspend will not continue.

The remaining £0.010m underspend was one-offs against a range of Early Help teams including Parenting, Specific Needs Clubs and the Family Information Service.

Children's Services Management	**Portfolio Holder Children's Services**	334,860	352,361	17,501	G

Minor variation from budget at outturn

Learning and Skills	**Deputy Portfolio Holder Education**	17,039,730	19,228,350	2,188,620	R

The final outturn position reflects unachieved savings within Home to School Transport where the 2019/20 savings target was £0.717m. On 22 May 2019, a paper was presented to Cabinet on the discretionary areas of School and College Transport comprising: nursery SEND pupil transport, SEND post 16 students and post 16 mainstream students. This paper followed an extensive seven week consultation process and recommended a number of revised policy changes to these discretionary areas to deliver savings taking account of concerns raised by parents and carers within the consultation process. The revised recommendations that were approved by Cabinet will deliver £0.110m of the original £0.203m proposed savings that were consulted on.

To address the remaining £0.607m savings target the Passenger Transport team will continue to develop other innovative savings strategies such as Personal Transport Budgets, Independent Travel Training, and reducing costs in areas such as single occupancy taxis, TMBSS and Exclusion Transport. Some of these strategies were implemented from the start of the new academic year, however work is ongoing to determine the value of savings that have been achieved in 2019/20.

The overall overspend in Home to School Transport was £2.091m. This means there were budget pressures of £1.374m in addition to the unachieved savings. Comparing the total expenditure to 2018/19 shows an increase in expenditure of £0.685m in 2019/20. £0.351m of this increase relates to Special Education Needs transport, an increase of 7.6%. In addition to the established trend of an increase in SEN passenger numbers, the service has also experienced an increase in the complexity of the needs of the children that are being transported which has had the effect of increasing unit costs per passenger. The introduction of a new Post-19 policy as approved by Cabinet, imposing a duty on the Council to make transport arrangements for adult learners aged 19 and over attending educational institutions has also increased expenditure in this area. Significant expenditure growth has been built into the budget for 2020/21 to deal with this shortfall in budget.

The remaining £0.334m increase relates to mainstream transport costs and the costs of running the schools fleet.

Learning and Skills' financial position has suffered from reductions in Central Government grants, specifically the loss of Dedicated Schools Grant funding. This was a direct result of a baselining exercise undertaken by the Department for Education to remove any Dedicated Schools Grant funding that did not meet strict criteria that constitutes a historic spending commitment, but that fund statutory functions that the Council is required to undertake. The pressure which has continued from 2018/19 was £0.194m. Growth has been built into the budget for 2020/21 to deal with this shortfall in budget.

There was a £0.048m overspend in Governor Services. A redesign of Governor Services was implemented and the consequence of this has been a reduction in the size of the team with the Casual Governor Services Clerks ceasing to be employed by the Council from 1st April 2019, now employed directly by schools/MATs. The revised model of a Governor advisory service did not deliver the level of buyback income from schools to cover its costs causing the overspend. A £0.056m overspend relates to one-off costs incurred in supporting the implementation of a new Education Management System from April 2021. There have also been net overspends totalling £0.043m across a number of service areas.

The cost pressures above were partially offset by a £0.243m one-off underspend on the Council's schools redundancy budget. This budget funds redundancy and pension strain costs for schools' teaching and non-teaching staff where it has been assessed that the Council should fund these costs rather than the school directly. There have been a much smaller number of redundancies funded in this financial year compared to previous years. This is partly explained by a reducing number of maintained schools. It is noteworthy that maintained schools do contribute to this overall budget through a top-slice approved by Schools Forum and decrease in expenditure in 2019/20 will lead to a smaller contribution from schools in the 2020/21 financial year.

CORPORATE BUDGETS	**Full Year**			**RAGY**
	Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total	**(5,235,570)**	**16,725,347)**	**(11,489,777)**	Y

Corporate Budgets	**Portfolio Holder Finance and Corporate Support**	(5,235,570)	(16,725,347)	(11,489,777)	Y

Savings have been confirmed in year from MRP of (£0.621m), and savings of (£0.800m) against the expected interest receivable and payable budgets. An early review of funds held for corporate inflation identified a one-off in year saving of (£0.685m).

Savings of (£0.107m) were achieved relating to reduced expenditure on staffing and subscriptions, (£0.086m) was achieved from savings realised on PFI contracts, (£0.050m) was achieved against external audit expenditure, and an underspend was achieved against non-distributable costs of (£0.087m). There was an overspend relating to a reduction in profit share from WME £0.086m.

One-off corporate funding from MRP, s31 grant and Pension Fund advance payments totalling (£5.170m) was applied to the Quarter 2 position to offset pressures arising in Adults and Children's Services. A further (£1.000m) s31 grant was applied at Quarter 3. The availability of Corporate funds to address any future issues arising is now extremely limited. A final review of MRP budgets at period 11 confirmed uncommitted budget of (£1.682m). At year end additional grant allocations were received and applied totalling (£0.401m), and additional s31 grant was applied of (£0.885m).

Business Continuity - Covid 19	**Portfolio Holder Finance and Corporate Support**	-	-	-	G

No variation from budget at outturn.

FINANCE, GOVERNANCE & ASSURANCE	**Full Year**			**RAGY**
	Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total	**2,828,070**	**2,280,326**	**(547,744)**	Y

Audit Services	**Portfolio Holder Finance and Corporate Support**	(4,450)	(84,315)	(79,865)	Y

Underspends within staffing budgets totalled (£0.057m) whilst there was an overachievement of external income of (£0.030m) against the budget.

Finance	**Portfolio Holder Finance and Corporate Support**	109,990	122,366	12,376	G

Minor variation from budget at outturn.

Pension Administration Services	**Portfolio Holder Finance and Corporate Support**	53,720	57,928	4,208	G

Minor variation from budget at outturn.

Revenues and Benefits	**Portfolio Holder Finance and Corporate Support**	2,142,310	2,024,004	(118,306)	Y

The housing benefit subsidy saw an overspend of £0.573m. This reflects a position which has worsened over the last few years. Actions to halt this trend include addressing the growing level of homelessness in the county and reducing the reliance on bed and breakfast accommodation. However, for this financial year a number of one-off savings mitigated this overspend and ensured an underspend overall across the service area. Vacancy management created an underspend of (£0.240m) and an adjustment to the bad debt provision created unbudgeted income totalling (£0.172m). One off savings in IT and software costs saved a further (£0.142m) whilst grant income was (£0.109m) above budget.					
Treasury Services	**Portfolio Holder Finance and Corporate Support**	3,510	(51,359)	(54,869)	Y
An income overachievement created a (£0.033m) saving, whilst savings in expenditure budgets provided a further (£0.022m) underspend.					
Commissioning Development and Procurement	**Deputy Portfolio Holder Procurement**	483,740	203,704	(280,036)	Y
A new income stream has been identified by the Commissioning Development and Procurement team, and this created (£0.250m) of unbudgeted income in the 2019-20 financial year. This income has been budgeted for in the 2020-21 budget and has helped achieve corporate savings targets whilst retaining some flexibility for the service area.					
Risk Management and Insurance	**Portfolio Holder Finance and Corporate Support**	39,250	7,997	(31,253)	Y
Small savings across controllable budgets in the Risk Management and Insurance and Emergency Planning budgets generated this small one-off underspend.					

LEGAL AND DEMOCRATIC SERVICES	**Full Year**			**RAGY**
	Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total	**505,730**	**380,318**	**(125,412)**	Y

Democratic Services	**Portfolio Holder Finance and Corporate Support**	320	(138,752)	(139,072)	Y
There have been in year efficiencies relating to vacancy management (£0.016m), efficiencies across supplies and services (£0.020m) and additional income generation of (£0.028m) across Committee Services. Further in year savings have been identified within Member Services of (£0.075m) relating to training, supplies and services, and allowances.					
Elections	**Portfolio Holder Finance and Corporate Support**	497,050	313,593	(183,457)	Y
Application of the IER/JLB grant at year end of (£0.121m) and income relating to Elections Services has contributed (£0.050m) towards the overall underspend for the service.					
Legal Services	**Portfolio Holder Finance and Corporate Support**	8,360	205,477	197,117	R
The budget pressure within Legal Services in relation to increased support costs within the child care service has resulted in additional staffing resources being required to include both employed and locum staffing of £0.188m and increased legal disbursement costs of £0.102m. These increased costs have been offset in part by additional income of (£0.043m), and savings due to the spending freeze of (£0.050m).					

PLACE		Full Year Budget £	Controllable Outturn £	Controllable Variance £	RAGY
Total		**57,655,110**	**63,911,265**	**6,256,155**	R
Head of Commercial Services	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	143,490	207,655	64,165	A
An unallocated savings target of £0.050m remained unachieved at year end. This will carry into the 2020/21 budget and will be tackled commercially.					
Corporate Landlord	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	1,458,710	2,236,180	777,470	R
Following the decision to pause the Shirehall redevelopment project, previously incurred costs totalling £0.381m were charged to revenue. Repairs and maintenance of the estate remains a huge challenge; this budget was overspent by £1.032m, although this was offset by a reserve drawdown totalling (£0.966m); a one-off mitigation for this financial year. Mardol House and The Tannery outturned at £0.120m over budget, primarily due to income shortfall on unfilled rooms, and retail space being unable to be let out during the construction of the adjacent medical practice. The level of occupancy in the student rooms was maximised prior to Covid-19 with the majority of rooms being filled. Smallholdings were £0.081m over budget. It is anticipated that this is a one-off overspend following progression of a number of urgent maintenance issues. The council's admin buildings outturned at £0.110m over budget. Despite savings being realised in building efficiencies, a loss of income was suffered, in particular by the courts relocating from Shirehall. Gypsy and Traveller sites outturned £0.061m over budget. There were water leaks at a number of the sites which have now been rectified.					
Facilities Management	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	26,730	80,793	54,063	A
A £0.055m savings target was only partially achieved in 2019-20. £0.026m was unachieved and will be carried forward into 2020-21. The remaining £0.028m overspend related to increased staffing costs in the form of casual staff and overtime, as a means of meeting operational demands.					
Property Services Group	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	(35,380)	405,714	441,094	R
£0.436m of the over-spend related to an income shortfall. A significant portion of this shortfall was professional fees at completion that will be processed in 2020/21. As a result of this, the service area is in position to deliver an improved outturn for 2020/21, although factors such as projects slipping or being halted will always be a risk.					
Strategic Asset Management	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	201,090	522,932	321,842	R
A savings target totalling £0.100m relating to improving energy efficiency and savings on energy costs was unachieved in 2019/20. Although a number of projects have been progressed that have both environmental and financial benefits, the initial investment offsets the financial savings until payback can be realised. The staffing budget was overspent by £0.131m, as the service area bought in additional resource to add resilience to a number of key areas. This included short-term agency staff and consultants and so whilst a pressure remains for 2020/21, it will be reduced. A number of unbudgeted items of expenditure were also incurred, including surveys, contractor works, PV maintenance and office reconfigurations, all of which contributed to the overspend.					

Shire Services	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	204,550	204,550	0	G
Minor variation from budget at outturn.					
Director of Place	**Portfolio Holder Communities, Place Planning and Regulatory Services**	(443,390)	810,518	1,253,908	R
The savings target relating to the creation of the Housing Company is within this area and has been fully unachievable in this financial year (£1.025m). Expenditure relating to the setting up of Shropshire Council's Housing Company, Cornovii, up to the point that the company was formed constitutes part of the overspend. The remainder of the overspend relates to unachievable savings targets, some of which is in relation to contract negotiation.					
Head of Economic Growth	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	218,910	220,368	1,458	G
Minor variation from budget at outturn.					
Planning Services	**Portfolio Holder Communities, Place Planning and Regulatory Services**	1,573,850	1,760,050	186,200	R
There have been a large number of Building Control enforcement cases requiring officer time to investigate, resulting in additional costs of the Council funded element of this service. In addition, the number of land charges/searches has been lower than at its peak a couple of years ago, resulting in reduced income of £0.070m. These additional costs are slightly reduced by additional net income within Development Management.					
Economic Growth	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	1,192,720	1,060,017	(132,703)	Y
There have been two vacant posts (Project Manager and Project & Sector Development Officer) which have generated a saving on employee costs. In addition, there has been income and use of reserves on specific project activity.					
Broadband	**Deputy Portfolio Holder Broadband**	191,650	162,477	(29,173)	Y
Additional use of reserves to reduce net expenditure.					
Planning Policy	**Portfolio Holder Housing and Strategic Planning**	717,490	543,433	(174,057)	Y
As part of the Community Infrastructure Levy (CIL) receipts from developments, up to 5% can be applied to cover revenue costs. In the 2019/20 reconciliation, we were able to demonstrate eligible costs in excess of those anticipated, enabling (previously unused) admin funding to be applied in year, resulting in the net reduction in service cost.					
Shrewsbury Shopping Centres	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	(1,859,480)	1,425,205)	434,275	R
As changes in the retail sector continue, the shopping centres have been subject to changing lease renewal negotiations. Pressures on the budget have continued all year creating a reduced rental income that totals £0.609m that has been partially offset by a reduction in support service, rates and service charge liabilities of (£0.175m).					
Arts	**Portfolio Holder Culture, Leisure, Waste and Communications**	70,910	68,662	(2,248)	Y
Minor variation from budget at outturn.					

Highways and Transport	**Portfolio Holder Highways and Car Parking**	16,220,990	18,461,904	2,240,914	R
There are a number of large variances across the service:- an overspend in Winter Maintenance (including some storm related expenditure) of £0.165m, an overspend relating to Street Lighting energy of £0.140m and additional highway maintenance expenditure to address potholes and other road defects. In addition, following consultation on the savings proposals around subsidies for Public Transport and Concessionary Fares, the initial savings were not implemented, (however, any efficiencies have, and continue to be, maximised). In addition there was a significant increase in the cost of subsidised bus routes as passenger numbers dropped significantly during March. The Grey Fleet scheme (the introduction of the Enterprise Car Club to reduce expenditure on mileage reimbursements within service areas) was operational, however, the savings were realised in other service areas, and hence the saving "benefit" has not been reflected back into this budget. In addition, the new parking strategy was implemented in phases from November 2018. Whilst the strategy has been successful in terms of influencing parking behaviour and reducing volumes within the town centre, it has impacted the net income from parking, with net receipts £0.820m lower than anticipated. This includes a reduction in parking income as Storm Dennis and Storm Ciara took effect in February leaving main revenue generating car parks flooded and repairs needed. These additional costs are somewhat offset by additional income generated by the Streetworks team and the application of the Covid-19 grant to offset further lost income throughout the lockdown period in March.					
Shropshire Hills AONB	**Portfolio Holder Culture, Leisure, Waste and Communications**	63,110	44,373	(18,737)	Y
Minor variation from budget at outturn.					
Outdoor Partnerships	**Portfolio Holder Culture, Leisure, Waste and Communications**	1,010,980	1,033,749	22,769	G
Minor variation from budget at outturn.					
Leisure	**Portfolio Holder Culture, Leisure, Waste and Communications**	1,989,560	2,261,293	271,733	R
A consultant was brought at the beginning of the financial year to review Leisure Services and advise on the future operation of facilities. A decision was made to bring two facilities back in-house on 1st April 2020 which required additional resilience across the service, including IT infrastructure and system upgrades. Additional staffing requirements and a reduction in income at our in-house facilities have led to further pressures on the budget. Additional financial support was provided to a contracted leisure facility in order to try to improve sustainability.					
Libraries	**Portfolio Holder Culture, Leisure, Waste and Communications**	3,380,400	3,490,205	109,805	R
An unachievable savings target of £0.098m makes up the majority of the overspend, as well as some variances against libraries where the Council received contributions from other organisations, and also additional vehicle maintenance costs incurred by the mobile libraries. This has been partly offset by reduced expenditure on library materials as a result of the spending freeze being implemented earlier in the financial year.					
Museums and Archives	**Portfolio Holder Culture, Leisure, Waste and Communications**	1,401,420	1,363,477	(37,943)	Y
The underspend mostly relates to vacancy management and also income targets exceeding expectations across some facilities. The loss of income at facilities throughout the lockdown period has been alleviated with the application of the Covid-19 grant.					
Theatre Services	**Portfolio Holder Culture, Leisure, Waste and Communications**	13,470	72,991	59,521	A
The loss of income relating to the current lockdown period has been alleviated somewhat through application of the Covid-19 grant. The largest budgetary pressure relates to increased costs of production expenses.					
Waste Management	**Portfolio Holder Culture, Leisure, Waste and Communications**	28,962,900	29,564,836	601,936	R

It was intended that £1.500m savings would be made in Waste Management in 2019/20 through a review of waste collection and recycling services. Of this figure, £0.800m has been achieved through removing bring bank facilities and removing surplus landfill budget, as the annual volume of waste sent to landfill is significantly below the contracted level. The remaining £0.700m savings target will not be achieved and has been removed at 2020/21 budget setting due to Members decision not to implement green waste savings. In year, the budget pressure caused by the unachieved saving has been offset by the low tonnage of waste sent to landfill this year and by increased income generated from third party use of the Energy Recovery Facility.					
Head of Infrastructure and Communities	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	169,920	345,028	175,108	R
The pressure in this area relates to management changes.					
Commercial Investment Team	**Deputy Leader and Portfolio Holder Assets, Economic Growth and Regeneration**	649,010	121,678	(527,332)	Y
2019/20 was the first year of a dedicated and budgeted Commercial Investment team and hence no savings target had been attributed. The underspend relates to staffing savings following the period of time establishing the team. A number of individuals have now been appointed, and a savings target of (£0.500m) has been budgeted for in 2020/21.					
Head of Culture, Leisure & Tourism	**Portfolio Holder Culture, Leisure, Waste and Communications**	131,500	293,588	162,088	R
Some of the overspend is offset by an underspend in Outdoor Partnerships in relation to a vacant post. £0.100m of the overspend represents an unachievable saving target relating to moving the Council's heritage assets into a trust model. A project board was set up to discuss the options for this but the required saving remained unachievable. Costs relating to a new appointment of Head of Culture, Leisure & Tourism are also shown here.					

STRATEGIC MANAGEMENT BOARD		**Full Year**			**RAGY**
		Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total		**(14,230)**	**(106,728)**	**(92,498)**	Y

Strategic Management Board	**Leader and Portfolio Holder Strategy**	(14,230)	(106,728)	(92,498)	Y
Savings of (£0.086m) have been delivered from planned vacancy management within the PA team. Additional small savings have been delivered on a one-off basis across subscriptions, supplies and services and as a result of the spending freeze.					

WORKFORCE AND TRANSFORMATION		**Full Year**			**RAGY**
		Budget £	**Controllable Outturn £**	**Controllable Variance £**	
Total		**413,887**	**413,719**	**(168)**	Y

Customer Services	**Portfolio Holder Finance and Corporate Support**	448,200	105,828	(342,372)	Y
In year savings have been delivered in relation to vacancy management and contract savings of (£0.95m). A total one-off saving of (£0.247m) has been delivered from supplies and services budgets and from additional income.					

ICT Digital Transformation Project	**Portfolio Holder Organisational Transformation and Digital Infrastructure**	(441,920)	1,082,229	1,524,149	R
Savings targets relating to the "single front door" and the wider Digital Transformation Programme of £1.490m have not yet been achieved. Work is ongoing to identify and confirm how these savings will be delivered.					
ICT Services	**Portfolio Holder Organisational Transformation and Digital Infrastructure**	521,810	(132,151)	(653,961)	Y
In year savings were achieved relating to planned vacancy management of (£0.0293m). A complete review of contracts and income was undertaken, and one-off savings were identified of (£0.220m). Additionally, at year end savings of (£0.210m) have been generated from telecoms and from schools income. These savings will be made on an ongoing basis and are included in Financial Strategy savings in future years.					
Communications	**Portfolio Holder Culture, Leisure, Waste and Communications**	(8,290)	(61,901)	(53,611)	Y
In year savings have been achieved in relation to vacancy management of (£0.054m).					
Information, Intelligence and Insight	**Portfolio Holder Organisational Transformation and Digital Infrastructure**	55,807	(96,049)	(151,856)	Y
Vacancy management savings across Information Governance and Intelligence & Insight Team total (£0.106m), while the spending freeze across both teams has realised (£0.046m).					
Human Resources and Organisational Development	**Portfolio Holder Finance and Corporate Support**	(161,720)	(484,238)	(322,518)	Y
Savings relating to the in-year spending freeze were achieved of (£0.042m) against supplies and services, and a further (£0.095m) relating to vacancy management was delivered. Additional income of (£0.122m) across Human Resources & Development was generated from commercial activity. At year end, savings of (£0.045m) were confirmed in relation to systems support and maintenance costs.					

Appendix 2

Housing Revenue Account 2019/20

As at March 2020	Original Estimate £	Outturn £	Variance Adverse/ (Favourable) £
Income			
Dwellings Rent	(16,945,000)	(17,360,717)	(415,717)
Garage Rent	(122,030)	(122,816)	(786)
Other Income	(17,000)	(226,574)	(209,574)
Charges for Services	(607,190)	(864,812)	(257,622)
Total Income	**(17,691,220)**	**(18,574,919)**	**(883,699)**
Expenditure			
ALMO Management Fee	8,268,230	8,268,230	0
Supplies and Services	538,310	833,592	295,282
Capital Charges - Dwelling Depreciation	3,770,150	3,780,100	9,950
Capital Charges - Depreciation Other	169,960	172,990	3,030
Interest Paid	2,991,960	2,989,760	(2,200)
Repairs charged to revenue	500,000	446,410	(53,590)
Revenue Financing Capital Expenditure	4,898,160	1,668,060	(3,230,100)
New development feasibility	150,000	41,810	(108,190)
Increase in Bad Debt Provision	50,000	50,000	0
Corporate & Democratic Core	163,960	173,630	9,670
Total Expenditure	**21,500,730**	**18,424,582**	**(3,076,148)**
Net Cost of Services	**3,809,510**	**(150,337)**	**(3,959,847)**
Interest Received	(30,000)	(176,490)	(146,490)
Net Operating Expenditure	**3,779,510**	**(326,827)**	**(4,106,337)**
Net Cost of Service/(Surplus) for Year	**3,779,510**	**(326,827)**	**(4,106,337)**
HRA Reserve			
B/fwd 1 April	9,813,486	9,813,486	
Surplus/(Deficit) for year	(3,779,510)	326,827	
Carried Forward 31 March	6,033,976	10,140,313	

Earmarked Reserves for the HRA

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
HRA Earmarked Reserves					
Major Repairs Reserve	Required to meet the costs of major repairs to be undertaken on the Council's housing stock.	4,240	(3,700)	3,953	4,492
	Total	**4,240**	**(3,700)**	**3,953**	**4,492**

Appendix 3

Amendments to Original Budget 2019/20

£000	Total	Adult Services	Children's Services	Corporate Budgets	Finance, Governance and Assurance	Legal and Democratic Services	Place	Strategic Management Board	Workforce and Transformation
Original Budget as Agreed by Council	**213,839**	**107,679**	**49,643**	**(3,894)**	**2,062**	**498**	**57,860**	**0**	**(10)**
Quarter 1									
Correction of salary budgets as a result of review of Grades 1-8 and SPB salary scales	**0**	157	31	(403)	56	8	111	5	34
Transfer of Youth Commissioning budget from Place to Children's Services	**0**		197				(197)		
Movement of premises budgets between service areas and Corporate Landlord	**0**		(25)				25		
Allocation of contract management savings across the Council	**0**	(143)	(46)		284		(64)		(30)
Final allocation of 2018/19 voluntary redundancy savings, according to where they have been achieved	**0**	(31)			(8)		(76)		115
Q1 Revised Budget	**213,839**	**107,661**	**49,800**	**(4,297)**	**2,393**	**506**	**57,660**	**6**	**110**
Quarter 2									
Corporate budget reallocation to offset savings	**0**			(598)	522				76
Transfer of Shrewsbury Town Council contract costs to appropriate directorates	**0**	30		(200)			170		
Creation of ERP systems team	**0**				(135)				135
Movement of premises budgets between service areas and Corporate Landlord	**0**	55	(75)				20		
Transfer of subscription budgets	**0**						20	(20)	
Adjustment re SPB salary scale review	**0**		10	(10)					
Q2 Revised Budget	**213,839**	**107,747**	**49,735**	**(5,105)**	**2,780**	**506**	**57,870**	**(14)**	**321**
Quarter 3									
Realignment of Better Care Fund grant following CCG agreement	**0**	(105)	105						
Q3 Revised Budget	**213,839**	**107,641**	**49,839**	**(5,105)**	**2,780**	**506**	**57,870**	**(14)**	**321**
Quarter 4									
Corporate budget reallocation to offset historic unachieved saving				(116)					116
Final adjustment re SPB salary scale review		14		(14)					
Transfer of ALMO Governance budget from Adult Services to Place		(50)					50		
Reallocation of ring-fenced Public Health grant		217			48		(265)		
Transfer of post			23						(23)
Q4 Revised Budget	**213,839**	**107,823**	**49,863**	**5,235**	**2,828**	**506**	**57,655**	**14**	**414**

Appendix 4

Reserves and Provisions 2019/20

	Purpose of Balance	Balance Brought Forward (£'000)	Transfer Balance Between Reserves (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
Reserves						
Sums set aside for major schemes, such as capital developments, or to fund major reorganisation						
Redundancy	Required to meet one-off costs arising from approved staffing reductions, allowing the full approved savings in salaries or wages to reach the revenue account.	0	12	(12)	0	0
Revenue Commitments for Future Capital Expenditure	Comprises of underspends against budgeted revenue contributions available for capital schemes. The underspends have arisen due to slippage in capital schemes or because other funding streams were utilised during the year so as to maximise time limited grants.	3,539	(99)	(581)	2,434	5,293
Development Reserve	Required to fund development projects or training that will deliver efficiency savings.	9,886	(12)	(3,231)	600	7,243
Invest to save Reserve	Required to fund invest to save projects in order to deliver the service transformation programme.	3,983	0	(440)	47	3,590
		17,408	**(99)**	**(4,265)**	**3,082**	**16,126**
Insurance Reserves						
Fire Liability	Required to meet the cost of excesses on all council properties.	2,832	0	(278)	0	2,553
Motor Insurance	An internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.	1,111	0	0	100	1,211
		3,942	**0**	**(278)**	**100**	**3,764**
Reserves of trading and business units						
Shire Catering and Cleaning Efficiency	Built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits.	478	0	(536)	57	0

	Purpose of Balance	Balance Brought Forward (£'000)	Transfer Balance Between Reserves (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
		478	**0**	**(536)**	**57**	**0**
Reserves retained for service departmental use						
Building Control	Required to manage the position regarding building control charges.	299	0	0	129	428
Care Act & IBCF Reserve	Required to fund the costs of implementing the Care Act requirements within the Council. This will be committed to the costs of one off posts required to implement the changes and training costs for staff within Adult Services. Plus unspent 17/18 IBCF monies required to fund the IBCF programme in future years.	4,827	0	(2,953)	95	1,969
Economic Development Workshops Major Maintenance	Established to meet the costs of major maintenance of Economic Development Workshops.	149	0	0	0	149
External Fund Reserve	Reserves held where the Council is the administering body for trust funds or partnership working.	1,399	0	(209)	595	1,785
Financial Strategy Reserve	Established specifically to provide one off funding for savings proposals in the Financial Strategy	20,867	0	(3,464)	3,399	20,802
Savings Management - Highways	Established specifically to provide one off funding for highways savings proposals in the Financial Strategy	7,098	0	(5,191)	0	1,907
Highways Development & Innovation Fund	Set aside funds for pump priming the Development and Innovation programme.	385	0	(26)	360	719
New Homes Bonus	Established from unapplied New Homes Bonus Grant balances.	2,608	0	(8,107)	7,754	2,254
Public Health Reserve	This reserve includes balances committed to specific public health projects.	255	0	(167)	0	88
Repairs & Maintenance Reserve	Set aside for known repairs and maintenance required to Council owned properties.	966	0	(966)	0	0

	Purpose of Balance	Balance Brought Forward (£'000)	Transfer Balance Between Reserves (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
Resources Efficiency	Established for investment in new developments, particularly information technology, that service area would not be expected to meet from their internal service level agreements for support services.	452	0	(209)	101	344
Revenue Commitments from Unringfenced Revenue Grants	Established from unapplied unringfenced Grant balances. Commitments have been made against these balances in 2019/20.	942	99	(592)	9,986	10,434
Severe Weather	Required to meet unbudgeted costs arising from the damage caused by severe weather. The policy of the Council is to budget for an average year's expenditure in the revenue accounts and transfer any underspend to the reserve or fund any overspend from the reserve.	2,924	0	(65)	0	2,859
TMO Vehicle Replacement	Set up to meet the costs of replacement vehicles by the Integrated Transport Unit.	300	0	(130)	0	170
		43,471	**99**	**(22,080)**	**22,419**	**43,909**
School Balances						
Balances held by schools under a scheme of delegation	Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion.	4,179	0	(5,997)	3,709	1,891
Education – Staff Sickness Insurance	Schools' self-help insurance for staff sickness with premiums met from delegated budgets.	18	0	(18)	0	0
Education – Theft Insurance	Schools' self-help insurance scheme to cover equipment damage and losses.	65	0	(63)	0	2
Schools Building Maintenance Insurance	The schools building maintenance insurance scheme is a service provided by Property Services for schools. In return for an annual sum all structural repairs and maintenance responsibilities previously identified as the "authority's responsibility" are carried out at no additional charge to the school.	2,164	0	0	137	2,301
		6,427	**0**	**(6,078)**	**3,846**	**4,194**

Total Reserves		**71,726**	**0**	**(33,237)**	**29,504**	**67,993**

	Purpose of Balance	Balance Brought Forward (£'000)	Transfer Balance Between Reserves (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
Provisions						
Provisions - Short Term						
Accumulated Absences Account	Provision to cover potential future payments of employee benefits not taken as at the end of the year. This is required under IFRS accounting regulations.	1,887	0	(1,887)	2,328	2,328
Other Provisions - Short Term	Includes a number of small provisions including Environmental Maintenance contract commitments and Shopping Centre rental payments	280	0	(248)	1,028	1,060
Provisions - Long Term						
Other Provisions - Long Term	Includes a number of small provisions including S106 Accrued Interest, profit share agreements and Shopping Centre rental payments.	300	0	(3)	0	297
Liability Insurance	Provision to meet the estimated actuarial valuation of claims for public liability and employers' liability	4,002		(23)	234	4,213
NDR Appeals	Represents the Council's share of the provision held for successful appeals against business rates.	5,775	0	(3,662)	4,275	6,389
Council Tax Bad Debt	Held for potential write offs of Council tax debtor balances.	5,184	0	(128)	1,000	6,056
NNDR Bad Debt	Held for potential write offs of NNDR debtor balances.	983	0	(205)	390	1,168
Tenancy Deposit Clawbacks	This represents deposits held for the economic development workshops that may be repaid at some point in the future.	166		(13)	26	179
General Fund Bad Debts	Held for potential write offs of debtor balances for General Fund Services including Housing Benefits.	5,700	0	(530)	795	5,965
HRA Bad Debts	Held for potential write offs of debtor balances for Housing Revenue Account rents and other debtor balances.	393		(52)	50	391
Total Provisions		**24,670**	**0**	**(6,750)**	**10,126**	**28,047**

Total Reserves & Provisions	**96,396**	**0**	**(39,986)**	**39,630**	**96,040**

	Purpose of Balance	Balance Brought Forward (£'000)	Transfer Balance Between Reserves (£'000)	Expenditure in 2019/20 (£'000)	Income in 2019/20 (£'000)	Balance Carried Forward (£'000)
HRA Earmarked Reserves						
Major Repairs Reserve	Required to meet the costs of major repairs to be undertaken on the Council's housing stock.	4,240	0	(3,700)	3,953	4,492
		4,240	**0**	**(3,700)**	**3,953**	**4,492**

Shropshire Council - Capital Programme 2019/20- 2022/23

APPENDIX 5

Capital Programme Summary - Quarter 4 2019/20

Directorate	Revised Budget Q3 19/20 £	Budget Virements Q4 £	Revised Budget Q4 19/20 £	Actual Spend 31/03/20 £	Spend to Budget Variance £	% Budget Spend	Outturn Projection £	Outturn Projection Variance £	2020/21 Revised Budget £	2021/22 Revised Budget £	2022/23 Revised Budget £
General Fund											
Place	36,682,041	8,044,457	44,726,498	39,043,092	5,683,406	87%	44,726,498	5,683,406	74,232,860	56,934,566	75,709,635
Adult Services	4,040,073	-	4,040,073	3,089,165	950,908	76%	4,040,073	950,908	8,237,606	3,200,000	3,200,000
Public Health	88,636	-	88,636	81,509	7,127	92%	88,636	7,127	267,127	-	-
Children's Services	8,247,251	708,145	8,955,396	6,869,768	2,085,628	77%	8,955,396	2,085,628	17,869,859	11,000,000	5,500,000
Resources & Support	4,131,578	1,020,224	5,151,802	4,156,901	994,901	81%	5,151,802	994,901	2,394,901	-	-
Total General Fund	**53,189,579**	**9,772,826**	**62,962,405**	**53,240,435**	**9,721,970**	**85%**	**62,962,405**	**9,721,970**	**103,002,353**	**71,134,566**	**84,409,635**
Housing Revenue Account	8,082,362	(62,887)	8,019,475	5,968,912	2,050,563	74%	8,019,475	2,050,563	24,306,173	18,700,000	18,700,000
					-						
Total Approved Budget	**61,271,941**	**9,709,939**	**70,981,880**	**59,209,347**	**11,772,533**	**83%**	**70,981,880**	**11,772,533**	**127,308,526**	**89,834,566**	**103,109,635**

Potfolio Holder	Revised BudgetQ3 19/20 £	Budget Virements Q4 £	Revised Budget Q4 19/20 £	Actual Spend 31/03/20	Spend to Budget Variance £	% Budget Spend	Outturn Projection £	Outturn Projection Variance £	2020/21 Revised Budget £	2021/22 Revised Budget £	2022/23 Revised Budget £
General Fund											
Adult Social Services & Climate Change - Dean Carroll	4,040,073	-	4,040,073	3,089,165	950,908	76%	4,040,073	950,908	8,237,606	3,200,000	3,200,000
Assets, Economic Growth & Regeneration - Steve Charmley	14,686,072	3,484,617	18,170,689	15,421,996	2,748,693	85%	18,170,689	2,748,693	44,462,960	20,000,000	20,000,000
Children's Services - Ed Potter	8,247,251	712,772	8,960,023	6,869,768	2,090,255	77%	8,960,023	2,090,255	17,869,859	11,000,000	5,500,000
Communities, Place Planning & Regulatory Services - Gwilym Butler	88,636	-	88,636	81,509	7,127	92%	88,636	7,127	267,127	-	-
Culture, Leisure, Waste & Communications - Lezley Picton	808,268	8,614	816,882	778,701	38,181	95%	816,882	38,181	363,181	-	-
Highways & Car Parking - Steve Davenport	20,446,935	4,201,737	24,648,672	21,895,947	2,752,725	89%	24,648,672	2,752,725	26,933,511	35,334,566	55,709,635
Housing & Strategic Planning - Robert Macey	740,766	344,862	1,085,628	946,448	139,180	87%	1,085,628	139,180	2,473,208	1,600,000	-
Organisational Transformation & Digital Infrastructure - Lee Chapman	4,131,578	1,020,224	5,151,802	4,156,901	994,901	81%	5,151,802	994,901	2,394,901	-	-
Public Health - Rob Gittins	-	-	-	-	-	0%	-	-	-	-	-
Total General Fund	**53,189,579**	**9,772,826**	**62,962,405**	**53,240,435**	**9,721,970**	**85%**	**62,962,405**	**9,721,970**	**103,002,353**	**71,134,566**	**84,409,635**
Housing Revenue Account - Lee Chapman	8,082,362	(62,887)	8,019,475	5,968,912	2,050,563	74%	8,019,475	2,050,563	24,306,173	18,700,000	18,700,000
Total Approved Budget	**61,271,941**	**9,709,939**	**70,981,880**	**59,209,347**	**11,772,533**	**83%**	**70,981,880**	**11,772,533**	**127,308,526**	**89,834,566**	**103,109,635**
			-	-	-	-	-		-	-	-

CAPITAL BUDGET MONITORING REPORT

APPENDIX 5

Financial Year: 2019 / 2020
Period: 12

Directorate Service Area	Revised Budget Quarter 3	Budget Virements Quarter 4	Revised Budget Quarter 4	Actual Spend 31/03/2020	Spend to Budget Variance	Outturn Projection	Outturn Projection Variance	2020/21 Revised Budget	2021/22 Revised Budget	2022/23 Revised Budget
Adult Services Capital	**4,040,073**	**-**	**4,040,073**	**3,089,165**	**950,908**	**4,040,073**	**950,908**	**8,237,606**	**3,200,000**	**3,200,000**
Contracts & Providers	-	-	-	-	-	-	-	-	-	-
Housing Services	2,690,227	-	2,690,227	2,053,612	636,615	2,690,227	636,615	6,843,313	3,200,000	3,200,000
Social Care Operations	1,349,846	-	1,349,846	1,035,553	314,293	1,349,846	314,293	1,394,293	-	-
Children's Services Capital	**8,247,251**	**712,772**	**8,960,023**	**6,869,768**	**2,090,255**	**8,960,023**	**2,090,255**	**17,869,859**	**11,000,000**	**5,500,000**
Children's Residential Care	1,100,000	900,000	2,000,000	1,381,539	618,461	2,000,000	618,461	618,461	-	-
Non Maintained Schools	572,927	(29,132)	543,795	505,477	38,318	543,795	38,318	2,081,681	4,000,000	-
Primary School	6,715,355	(41,727)	6,673,628	4,607,389	2,066,239	6,673,628	2,066,239	11,359,626	4,000,000	5,000,000
Secondary School	403,562	(30,664)	372,898	258,917	113,981	372,898	113,981	1,113,981	2,000,000	-
Special Schools	152,665	577	153,242	116,446	36,796	153,242	36,796	36,796	-	-
Unallocated School	(697,258)	(86,282)	(783,540)	- 0	(783,540)	(783,540)	(783,540)	2,659,314	1,000,000	500,000
Place Capital - Commercial Services	**8,410,957**	**3,409,617**	**11,820,574**	**10,230,557**	**1,590,017**	**11,820,574**	**1,590,017**	**33,565,957**	**20,000,000**	**20,000,000**
Corporate Landlord	8,410,957	3,409,617	11,820,574	10,230,557	1,590,017	11,820,574	1,590,017	33,565,957	20,000,000	20,000,000
Place Capital - Economic Development	**7,015,881**	**419,862**	**7,435,743**	**6,137,887**	**1,297,856**	**7,435,743**	**1,297,856**	**13,370,211**	**1,600,000**	**-**
Broadband	5,050,247	75,000	5,125,247	4,217,451	907,796	5,125,247	907,796	10,646,123	-	-
Development Management	148,620	344,862	493,482	484,729	8,753	493,482	8,753	42,435	-	-
Economic Growth	1,224,868	-	1,224,868	973,988	250,880	1,224,868	250,880	250,880	-	-
Planning Policy	592,146	-	592,146	461,719	130,427	592,146	130,427	2,430,773	1,600,000	-
Place Capital - Infrastructure & Communities	**21,255,203**	**4,210,351**	**25,465,554**	**22,674,648**	**2,790,906**	**25,465,554**	**2,790,906**	**27,296,692**	**35,334,566**	**55,709,635**
Highways and Transport	20,446,935	4,201,737	24,648,672	21,895,947	2,752,725	24,648,672	2,752,725	26,933,511	35,334,566	55,709,635
Leisure	429,957	-	429,957	398,768	31,189	429,957	31,189	429,957	-	-
Outdoor Partnerships	378,311	8,614	386,925	379,933	6,992	386,925	6,992	6,992	-	-
Visitor Economy	-	-	-	-	-	-	-	-	-	-
Waste	-	-	-	-	-	-	-	325,000	-	-
Public Health Capital	**88,636**	**-**	**88,636**	**81,509**	**7,127**	**88,636**	**7,127**	**267,127**	**-**	**-**
Public Health	-	-	-	-	-	-	-	-	-	-
Public Protection	88,636	-	88,636	81,509	7,127	88,636	7,127	267,127	-	-
Workforce and Transformation Capital	**4,131,578**	**1,020,224**	**5,151,802**	**4,156,901**	**994,901**	**5,151,802**	**994,901**	**2,394,901**	**-**	**-**
ICT Digital Transformation - CRM	1,054,370	-	1,054,370	597,675	456,695	1,054,370	456,695	456,695	-	-
ICT Digital Transformation - ERP	1,617,675	-	1,617,675	1,428,820	188,855	1,617,675	188,855	188,855	-	-
ICT Digital Transformation - Infrastructure & Architecture	542,671	1,020,224	1,562,895	1,496,883	66,012	1,562,895	66,012	66,012	-	-
ICT Digital Transformation - Social Care	818,740	-	818,740	633,523	185,217	818,740	185,217	185,217	-	-
ICT Digital Tranformation - Unallocated	98,122	-	98,122	-	98,122	98,122	98,122	1,498,122	-	-
Housing Revenue Account Capital	**8,082,362**	**(62,887)**	**8,019,475**	**5,968,912**	**2,050,563**	**8,019,475**	**2,050,563**	**24,306,173**	**18,700,000**	**18,700,000**
HRA Dwellings	8,082,362	(62,887)	8,019,475	5,968,912	2,050,563	8,019,475	2,050,563	24,306,173	18,700,000	18,700,000
Total Capital Programme	**61,271,941**	**9,709,939**	**70,981,880**	**59,209,346.88**	**11,772,533.12**	**70,981,880.00**	**11,772,533**	**127,308,526**	**89,834,566**	**103,109,635**

Shropshire Council - Capital Programme 2019/20- 2022/23

APPENDIX 5

Financing	Revised Budget Q3 19/20 £	Budget Virements Q4 £	Revised Budget Q4 19/20 £	2020/21 Revised Budget	2021/22 Revised Budget £	2022/23 Revised Budget £
Self Financed Prudential Borrowing	**5,356,420**	**4,375,000**	**9,731,420**	**41,780,062**	**30,910,000**	**30,910,000**
Government Grants						
Department for Transport	22,076,379	3,516,951	25,593,330	25,622,926	25,859,289	54,799,635
- Rapid Electric Vehicle Charging Points Grant	30,135	25,385	55,520	11,386	-	-
Ministry of Housing, Communities & Local Gov						
- Land Release Fund	500,596	-	500,596	280,343	-	-
- Housing Infrastructure Fund	1,050,454	-	1,050,454	250,880	-	-
- One Public Estate	75,000	(75,000)	-	-	-	-
Department for Health - Better Care Fund	2,584,017	-	2,584,017	4,703,354	3,200,000	3,200,000
Department for Health - HOLD Grant	300,000	-	300,000	1,971,962	-	-
Department for Education						
- Condition Capital Grant	1,843,328	-	1,843,328	1,528,620	1,000,000	500,000
- Basic Need Capital Grant	163,311	(153,418)	9,893	5,663,742	1,153,418	-
- Devolved Formula Capital	760,821	(17,712)	743,109	987,930	-	-
- Special Provision Funds	192,370	-	192,370	681,104	-	-
- Healthy Pupils Capital Grant	35,020	-	35,020	13,606	-	-
- Full Fibre Broadband	-	-	-	156,602		
Department for Communities and Local Government						
- Community Housing Fund	-	-	-	361,296	-	-
Disabled Facilities Grant (Additional)	-	-	-	-	-	-
Education Funding Agency						
- Early Years Capital Fund	-	(155,474)	(155,474)	124,009	31,465	-
HCA - Travellers	370,000	-	370,000	-	-	-
HCA - New Build	4,367,248	-	4,367,248	3,280,426	3,000,000	3,000,000
BDUK - Broadband	273,426	-	273,426	667,633	-	-
Environment Agency	-	-	-	933,597	-	-
DEFRA	(295,101)	156,602	(138,499)	125,095	-	-
Local Enterprise Partnership (LEP) Fund	-	-	-	1,426,940	-	-
Public Health England	34,549,542	-	34,549,542	-	-	-
	68,876,546	**3,297,334**	**72,173,880**	**48,791,451**	**34,244,172**	**61,499,635**
Other Grants						
Historic England/English Heritage	683	-	683	-	-	-
Natural England	-	-	-	683	-	-
Other Grants	945,753	108,787	1,054,540	1,139,471	-	-
	946,436	**108,787**	**1,055,223**	**1,140,154**	**-**	**-**
Other Contributions						
Section 106	1,558,117	495,063	2,053,180	4,114,572	11,265,277	-
Community Infrastructure Levy (CIL)	441,027	500,000	941,027	6,315,986	2,300,000	-
Other Contributions	3,546,204	67,181	3,613,385	3,533,638	-	-
	5,545,348	**1,062,244**	**6,607,592**	**13,964,196**	**13,565,277**	**-**
Revenue Contributions to Capital	**-**	**1,290,724**	**1,290,724**	**4,906,890**	**2,014,293**	**2,000,000**
Major Repairs Allowance	**-**	**-**	**-**	**5,879,247**	**3,700,000**	**3,700,000**
Corporate Resources (expectation - Capital Receipts only)	**-**	**(424,150)**	**(424,150)**	**10,846,526**	**5,400,824**	**5,000,000**
Total Confirmed Funding	**80,724,750**	**9,709,939**	**90,434,689**	**127,308,526**	**89,834,566**	**103,109,635**

Funding Changes - Quarter 4

APPENDIX 5

Budget Increase/Decrease	2019/20	2020/21	2021/22	2022/23	Details
Self Financed Prudential Borrowing	**4,375,000**	**(3,475,000)**			Children's Residential Care schemes (£900,000) and completion of acquisition of Castleview Oswestry
Government Grants					
Department for Transport	3,516,951				DfT Local Majors Funding.
- Rapid Electric Vehicle Charge Points	25,385				Additional funding notification from Highways England.
Ministry of Housing, Communities & Local Government					
- One Public Estate	(75,000)				Grant funded directly to CCG.
Department for Health - Better Care Fund		9,291			Notification of 2020/21 grant confiirmed.
Department for Education					
- Basic Need Capital Grant			(153,418)		Reallocation of underspent Basic Need unallocated budget to School Place Plan Programme.
- Devolved Formula Capital	(17,712)				Transfer to Academy School.
Education Funding Agency					
- Early Years Capital Fund			(31,465)		Reallocation of underspent Early Years Capital unallocated budget to School Place Plan Programme.
DEFRA	156,602				DfE Full Fibre Broadband Grant.
Local Enterprise Partnership (LEP) Fund		(300,000)			Reprofiling of scheme budget to match expected expenditure profile. Reversal of Period 10 slippage.
Total Government Grants	**3,606,226**	**(290,709)**	**(184,883)**	**-**	
Other Grants					
Other Grants	108,787	89,431			ERDF contributions to Corporate Landlord SEPuBu Programme (£108,787) and Ludlow Assembly Rooms project (£89,431).
Total Other Grants	**108,787**	**89,431**	**-**	**-**	
Other Contributions					
Section 106	495,063				S106 contribution to ITP South schemes - Shifnal Network Improvement (£23,418), Shifnal Bradford Street Enhancement (£126,783) and Parish /Town council schemes (£344,862).
Community Infrastructure Levy (CIL)	500,000				CIL contribution to SITP scheme.
Other Contributions	67,181	57,922			Private sector contributions to ITP Central scheme - Morrisons, Shrewsbury Right Turn Traffic Lights (£9,200 in 2019/20 and £10,300 in 2020/21). Diocese contribution to Baschurch Primary Basic Need scheme (-£17,019 in 2019/20 and £43,363 in 2020/21). £75,00 contribution to Broadband Project in 2019/20 and £4,259 contribution to Ludlow Assembly Rooms refurbishment project in 2020/21.
Total Other Contributions	**1,062,244**	**57,922**	**-**	**-**	
Revenue Contributions to Capital	**1,290,724**				Invest to Save (I2S) revenue contribution to Corporate Landlord SEPuBu Programme (£94,078) and ICT Upgrades Programme (£1,020,224) and schools revenue contribution to Wistanstow DFC scheme (£1,502). £12,708 schoosl revenue contributions to a number of Devolved Formula Capital schemes and £162,212 contribution to the Corporate Landlord Programme.
Corporate Resources (expectation - Capital Receipts only)	**(409,733)**		**(13,426)**		In 2019/20 budgets amended to match STaR profile and financing (£62,887) and removal of budget requirement (£346,848) as scheme removed from programme. In 2021/22 reallocation of underspent School Amalgamations unallocated budget (£4,000) and underspent Basic Need unallocated budget (£9,426) to
	10,033,248	**(3,618,356)**	**(198,309)**	**-**	
Re-Profiling					
Children's Services					
Basic Need Unallocated	(162,844)		162,844		Reprofiling of unallocated underspent budget to match profile of School Place Plan Programme.
Early Years	(156,465)	125,000	31,465		Reprofiling of unallocated underspent budget to match profile of School Place Plan Programme.
School Amalgamations Schemes	(4,000)		4,000		Reprofiling of unallocated underspent budget to match profile of School Place Plan Programme.
	(323,309)	**125,000**	**198,309**	**-**	
	-				

Committee and date	Item
Audit Committee 31 July 2020	 Public

STATEMENT OF ACCOUNTS 2019/20

Responsible Officer James Walton
Email: james.walton@shropshire.gov.uk Tel: (01743) 258915

1. Summary

The timetable for producing the 2019/20 Statement of Accounts has been affected by the COVID-19 pandemic. Normal practice would have seen the Draft Statement of Accounts prepared and certified by the Section 151 Officer as a true and fair view of the financial position by 31st May 2020 with the audited Statement of Accounts published by 31st July 2020, in line with the Accounts and Audit Regulations 2015. However due to the impact of the COVID-19 pandemic, the Accounts and Audit Regulations have been amended so that all local authorities are required to publish the audited Statement of Accounts by the 30 November 2020, with the draft accounts approved by the 31 August 2020. In consultation with the external auditors, it has been agreed that the Council would aim for an earlier approval date for both the draft and audited Statement of Accounts. Therefore, the Draft Statement of Accounts for 2019/20 has been certified by the Section 151 Officer as a true and fair view of the financial position by 9th July 2020 and it is intended that the audited Statement of Accounts will be published by the 30th September 2020.

The Draft Statement of Accounts for 2019/20 is appended to this report. This report provides an overview of the Accounts and provides details of the reasons for the most significant changes between the 2018/19 Accounts and the 2019/20 Accounts.

The final revenue outturn for 2019/20 is an overspend of £1.692m on a gross budget of £568.489m. The final capital outturn shows a spend of £59.209m, representing 83% of the revised budget.

The authority's earmarked reserves and provisions have increased by £1.931m. The general fund balance has decreased by £2.027m. Delegated Schools' balances have decreased by £2.289m. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in a separate report on the Agenda for this meeting.

2. Recommendations

It is recommended that Members:

A. Receive and comment on the draft 2019/20 Statement of Accounts.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the report.

4. Financial Implications

4.1. This report considers the projected outturn position for the 2019/20 revenue budget and the implications on the level of general fund balances of any overspends or spending pressures.

5. Background

5.1. A copy of the 2019/20 Statement of Accounts is attached at Appendix 1. The external audit by Grant Thornton is currently underway and will be completed in September, after which the Statement of Accounts will be formally published and a final report brought back to Audit Committee for approval. This report will detail any material changes required as a result of the audit as agreed with the External Auditor.

5.2. The statutory deadline for the formal publication of the audited 2019/20 Statement of Accounts following the amendment for COVID-19 is 30 November 2020.

6. Statement of Accounts

6.1. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the "Code", to make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

6.2 All of the above has been taken into consideration when producing the authority's own Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:

- **Narrative Report** – this provides an explanation of the authority's financial position for 2019/20 and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the authority and the Section 151 Officer concerning the authority's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the External Auditor following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.

- **The Core Financial Statements,** which comprises:

  - **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority which is analysed into 'usable reserves' and other reserves.

  - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2019/20 Income and Expenditure Statement reports a surplus for the year of £47.766m, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The actual movement on the General Fund Balance was a decrease of £2.026m which reflects the year end overspend on the revenue budget.

  - **The Balance Sheet** – this is fundamental to the understanding of the authority's financial position as at the 31 March 2020. It shows the balances and reserves at the authority's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. As can be seen from the balance sheet the authority's total equity amounts to £401.236m, an increase of £47.766m which is analysed in the Movement in Reserves Statement. Assets have increased as a result of an increase in the value of Property, Plant & Equipment which has increased due to an increase in valuations of assets held. A particular example of this is the valuation increase of Car Parks. It should be noted that the equity value in the balance sheet does demonstrate that the authority's assets exceed liabilities and therefore represents a very healthy financial position.

  - **The Cash Flow Statement** – this consolidated statement summarises the authority's inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash.

- **The Notes to the Core Financial Statements,** which provides supporting and explanatory information on the Core Financial Statements and includes the Council's accounting policies.

- **The Group Accounts** – these are prepared to account for the Council's share in IP&E Limited, Shropshire Towns & Rural Housing, West Mercia Energy, Jersey Property Unit Trust, SSC No.1 Limited and Cornovii Developments Limited.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority's own finances. This statement and supporting notes are an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2019/20 and assets and liabilities as at 31 March 2020.

- **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.

- **The Collection Fund Account** - this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.

The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting 2019/20, published by CIPFA (the Code). For 2019/20 there have been no significant changes to the Code that have impacted on the Council's collation of the Statement of Accounts.

7. Accounting Policies

7.1 The accounting policies that the Council uses to determine the treatment of items within the Statement of Accounts are detailed in Note 1 to the Core Financial Statements. The only minor amendment to the accounting policies in 2019/20 is the addition of the annual desktop review for valuation of all assets as at the balance sheet date that is now being performed.

8. Analytical Review

8.1 An analytical review has been carried out on each element of the Draft Statement of Accounts, this is a final check that provides assurance that the

Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous year's accounts. For 2019/20 the materiality threshold (i.e. the level of change between 2018/19 and 2019/20) used was 10% or £8m, which is used to ensure that all questions that the external auditors are likely to raise have been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 2.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) CIPFA's Code of Practice (Code) on Local Authority Accounting CIPFA/SOLACE guidance on the Annual Governance Statement Revenue and Capital Budget 2019/20
Cabinet Member (Portfolio Holder) Peter Adams, Chair of Audit Committee
Local Member All
Appendices 1. Draft Statement of Accounts 2019/20 (Unaudited) 2. Analytical Review of Statement of Accounts

Analytical Review of Shropshire Council's Statement of Accounts for 2019/20

1. The analytical review for 2019/20 highlighted a number of areas where there were material changes, the most significant are detailed below along with an explanation of why these changes have occurred:

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Adult Services (Expenditure)**

	2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
Expenditure	177,619	163,328	14,291	9%

Within Adults Services there has been an increase in purchasing costs in the region of £11m and other inflationary pressures. This has not been as a result of a material increase in service user numbers but instead due to more service users with complicated needs presenting to the Council that result in higher cost placements and support.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Children and Education Services**

	2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
Income	(127,945)	(143,422)	15,476	11%

A reduction in grant income in relation to Schools (Dedicated Schools Grant and Pupil Premium Grant) has resulted in a reduction in income. In normal circumstances you would expect an equivalent reduction in expenditure however the cost pressures experienced within Children's Safeguarding for children's placements in addition to a revaluation loss of approximately £5.5m in relation to schools in 2019/20 has resulted in only a minor reduction in expenditure of just over £2m.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Finance, Governance & Assurance**

	2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
Expenditure	56,965	64,305	7,340	11%
Income	(54,188)	(61,691)	(7,503)	12%

The Housing Benefit Rent Allowances grant reduced by £7m in 2019/20 from previous years and this was accompanied by an equivalent reduction in expenditure.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Legal & Democratic Services**

	2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
Expenditure	1,703	604	1,099	182%
Income	(1,027)	(491)	536	109%

The Council ran 2 major elections during 2019/20 for the General election and the Euro elections. This resulted in an increase in costs for the election team, with compensatory income to offset the costs incurred.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Place**

	2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
Expenditure	156,708	135,016	21,692	16%

The increase in expenditure for the Place Service area mainly relates to the revaluation loss for the Shrewsbury Shopping Centres of £23.5m compared to the loss in 2018/29 of £11.5m, thereby increasing expenditure by £12m when comparing between the two year. There has also been an increase in costs relating to highways costs relating to repair of the county highways were incurred in addition to emergency repairs and staffing that was required during the Storm Ciara and Storm Dennis events that took place in February.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Corporate**

	2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
Expenditure	14,654	133	14,521	10918%
Income	(10,121)	(7,133)	(2,988)	42%

Expenditure within Corporate Services increased due to an increase in past service costs, settlements and curtailments within the pension fund when compared to 2018/29. In 2018/19 there was a significant amount of settlements and no past service cost reported, whereas in 2019/20 the value of settlements has reduced by ⅔rds and there has been a past service cost of just over £9m. this has resulted in a swing in expenditure of approximately £14m.

The main income source within Corporate Services relates to Core Government grant funding that is received, and in 2019/20 the Improved Better Care Fund grant increased by £3.8m. There have been other minor amendments in grant funding that has been received in 2019/20.

- **Comprehensive Income and Expenditure Statement - Other Operating Expenditure**

2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
27,542	81,827	(54,285)	66%

The main reason for the decrease relates to losses on disposal of non-current assets. In 2018/19 the Council had 11 schools (7 Primary, 4 Secondary) transferring to academy status and resulted in a loss on disposal of £73.35m, however in 2019/20 only 3 schools (2 Primary, 1 Secondary) have transferred to an academy and resulted in a loss on disposal of £18.76m seeing a swing of £54.59m.

- **Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
39,556	30,986	8,570	28%

(Income) and expenditure in relation to investment properties and changes in their fair value increased from a gain of £3.83m in 2018/19 to a loss of £2.62m in 2019/20. The net income from investment properties stayed broadly static, the movement was in the capital charges for changes in value of investment properties, for which the movement was a loss of £3.59m in 2019/20, compared to a gain of £2.86m in 2018/19. This relates to specific movements in the value of assets in this category.

- **Comprehensive Income and Expenditure Statement, Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
(92,765)	(39,431)	(53,334)	135%

This figure is the value of upward or downward revaluations that are debited/credited directly to the Revaluation Reserve, rather than to service revenue accounts. In 2019/20 the surplus was £53m greater than in 2018/19. This was mainly in relation to upward revaluations of assets in 2019/20, with the value of upwards revaluations £53.334m higher than in 2018/19. These changes reflect the movement in property values for those revalued each year, compared to their last valuations and the properties revalued each year (valuations are done on a rolling programme) and whether there has been a previous revaluation loss charged to service revenue accounts, which can be reversed if there is a subsequent revaluation increase. Also in 2019/20 there has been a change in valuation approach where a desktop review of all assets has been undertaken as at the balance sheet date which has resulted in a higher valuation increase than in previous years when only a proportion of assets were revalued.

- **Comprehensive Income and Expenditure Statement, Remeasurement of the Net Defined Benefit Liability**

2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
(28,057)	56,992	(85,049)	149%

Remeasurement of the Net Defined Benefit Liability has changed from a loss of £56.992m in 2018/19 to a gain of £28.057m in 2019/20. The total swing of £85.049m is made up of three elements. The first is a change in liabilities as a result of a change in financial assumptions used by the actuary. This has resulted in a remeasurement gain of £25.399m in 2019/20 compared to a remeasurement loss of £63.336m in 2018/19. The second element is an Experience loss on liabilities of £7.377m. The third element relates to a gain resulting from a change in demographic assumptions of £62.900m which was previously £0 in 2018/19. There has also been a swing of £79.538m in the return on plan assets which has resulted in a reduction in asset values, mainly as a result of changes in the investment market due to the COVID-19 pandemic. The decrease in liabilities is due to a decrease in the CPI inflation assumption by 0.1%.

- **Balance Sheet Non-Current Assets – Property, Plant and Equipment**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
1,138,479	1,069,254	69,225	6%

This reflects the overall movement in property, plant and equipment. The movement consists of additions, disposals, revaluations (upwards and downwards), depreciation charges and impairments. There has been a net revaluation increase in 2019/20 which is predominantly due to valuation increases on assets revalued. This is a combination of asset specific changes for example Car park valuations have increased as a result of the change to the Car Parking Strategy and valuation approach, but the introduction of a desktop review of all assets as at the balance sheet date has all increased asset values overall. There have also been £43m of additions, with the value of assets written out reducing significantly in 2019/20 of £20.9m. All of this has resulted in a net increase in the value of property, plant and equipment held on the balance sheet.

- **Balance Sheet Non-Current Assets – Intangible Assets**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
7,376	4,051	3,325	82%

Further expenditure relating to the Digital Transformation Programme has occurred in 2019/20 and some assets that had previously been categorised as assets under construction in 2018/19 have now gone live and been transferred to intangible assets.

- **Balance Sheet Long Term Assets – Long Term Investment**

2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
20,206	40,920	(20,714)	51%

In 2017/18 Shropshire Council purchased an investment in the Charles Darwin, Pride Hill and Riverside Shopping Centres. A valuation of the investment was carried out as at 31st March 2020 and this resulted in a net reduction in the value of the investment of £20.714m due to changes in the retail sector over the last 12 months and the repurposing work that is being undertaken within the shopping centres to support the Council's objective of economic regeneration within the town.

- **Balance Sheet Current Assets – Current Held for Sale Investment Properties**

2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
740	3,822	3,082	81%

In 2018/19 an area of land (related to the Weir Hill housing development scheme) owned by the Council was transferred into this category from Investment Properties based on the agreement that had been entered into to sell part of this land in the next 12 months. The sale was completed in 2019/20 and the asset removed from the balance sheet. In 2019/20 one Investment Property falls into the category of Current Held for Sale Investment Properties based on the agreement in place to sell the site at the year end.

- **Balance Sheet Current Assets – Assets Held for Sale**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
3,102	1,432	(1,670)	117%

The balance sheet value of assets in this classification reflects the position the Council are at with regards disposing of assets and whether they meet the criteria to be classified as Asset Held for Sale at the balance sheet date. At the 2018/19 balance sheet date there were more assets that met this criteria than at the 2019/20 balance sheet date. The main changes in 2019/20 are two sites (Former Ifton Heath Primary School & site at the Wharf Ellesmere) transferring into this category based on the agreement in place to sell the sites as at the balance sheet date and the transfer of the latest HRA New Build Properties which are been marketed for shared ownership sale.

- **Balance Sheet Current Assets – Inventories**

2019/20 £000	2018/19 £000	Decrease (Value) £000	Decrease (%)
572	702	130	19%

There has been a decrease in the value of stock held mainly due to decrease in slat stock for the roads. The level of salt stock at the year end will fluctuate depending on the level of salt having to be used to treat the roads at various points of the year.

- **Balance Sheet Current Assets – Short Term Debtors**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
67,373	55,943	11,430	20%

There have been a number of increases across a range of debtors balances that supports the increase in the debtors total. As at the year end the Council had 2 months' worth of VAT claims that were awaiting reimbursement from HMRC which accounted for an increase of £3.9m. The value of debtors on the sales ledger had also increased by £2m and the timing of when invoices had been raised to debtors also resulted in an increase is the debtors figure. For instance the debt charge invoices that is raised to Telford & Wrekin had been raised earlier in 2018/19 as a result of the financial system changeover and hence paid by the authority, however this was raised slightly later in 2019/20 and was therefore still outstanding at the year end which accounts for a further £2.3m.

- **Balance Sheet Current Assets – Cash and Cash Equivalents**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
93,007	64,060	28,947	45%

Balance Sheet Current Liabilities – Bank Overdraft

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
(14,644)	(7,005)	7,639	109%

The net increase in cash and cash equivalents and the bank overdraft needs to be considered together to explain the true difference in cash balance during the two years.

There are four elements that detail the difference in cash:
i. Movement in General Fund Balance (reduction in cash)
ii. Revenue Grants received (increase in cash)
iii. Movement in debtors/creditors (reduction in cash)
iv. New loans provided/repaid (reduction in cash

i. There was a £2.026m reduction in the General Fund Balance in 2019/20 which reflect the overspend position of £1.692m in the revenue budget and the release of funding to meet the costs of Storm Ciara and Storm Dennis that the authority experienced in February 2020.

ii. The Council received a number of grant balances right at the end of the financial year which had to be accounted for within the cash balance. These included the first tranche of COVID-19 funding from the Government of £8.9m, £8.6m section 31 grant for Business Rate retention payments which relates to 2020/21 but was paid over in March, and £24m of DfT money that the LEP was due to receive.

iii. Debtors have increased by £11m during 2019/20 thereby increasing the amount of money owed to the authority and reducing the potential cash balance held.

iv. Cash will also have reduced due to the repayment of borrowing that the Council has undertaken of £8.840m.

- **Balance Sheet Current Liabilities – Deferred Income**

2019/20 £000	**2018/19 £000**	**Decrease (Value) £000**	**Decrease (%)**
0	(1,101)	(1,101)	100%

£2.4m was placed in an escrow in 2017/18 relation to rent guarantees for the shopping centre. This was included in temporary investments and deferred income. As at 1st April 2019, £1.101m remained in the escrow account, however during the course of 2019/20 this has all been drawn down and therefore no balance remains as at 31st March 2020.

- **Balance Sheet Current Liabilities – Short Term Borrowing**

2019/20 £000	**2018/19 £000**	**Decrease (Value) £000**	**Decrease (%)**
(6,013)	(10,873)	4,860	45%

During 2019/20 Shropshire Council repaid a temporary loan of £4.840m that had previously been taken out at the end of the 2018/19 financial year.

- **Balance Sheet Current Liabilities – Short Term Creditors**

2019/20 £000	**2018/19 £000**	**Increase (Value) £000**	**Increase (%)**
(106,991)	(76,401)	30,590	40%

The increase in the creditors balance mainly relates to the increase in the creditor balance held for the Marches LEP which relates to the cash balance that is held on their behalf within our accounts. As outlined above, the LEP received DfT grant of £24m just before the year end which has increased the value of the LEP cash balance held and hence the creditor balance. The short term element of the PFI creditor balance has also been accounted for in 2019/20 within this balance accounting for a further increase of £4.3m.

- **Balance Sheet Current Liabilities – Short Term Provisions**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
(3,576)	(2,167)	1,409	65%

Short term provisions have increased by £1.409m. The accumulated absences provision has increased by £0.441m. This provision is the estimated liability the Council would be required to cover for annual leave reimbursements for leavers. There have also been three new short term provisions established in 2019/20 relating to Highways and Transport, Cultural Services and known termination benefits for 2020/21. These balances are all expected to be utilised in 2020/21.

- **Balance Sheet Current Liabilities – Grant Receipts in Advance Revenue**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
(10,447)	(3,180)	(7,267)	229%

Whilst there are always some minor changes between grant balances held at the year end, the most significant change relates to the Business Rate Retention grant received from MHCLG of £8.6m which relates to 2020/21 but was received before the end of March 2020.

- **Balance Sheet Current Liabilities – Grant Receipts in Advance Capital**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
(4,893)	(2,779)	(2,114)	76%

The increase in capital grant receipts in advance relates to Broadband funding which has been reprofiled during the course of the 2019/20 financial year to leave a balance of £3m which will be spent in future years within the capital programme.

- **Balance Sheet Financing – Unusable Reserves**

2019/20 £000	2018/19 £000	Increase (Value) £000	Increase (%)
263,115	217,756	(45,359)	28%

The increase in Unusable Reserves is due to an increase in the Revaluation Reserve, offset by a decrease in the Capital Adjustment Account. The Revaluation Reserve increased by £80.788m in 2019/20 which reflects the movement in asset values and disposals. The most significant areas of change were increases in upward valuations due to change in valuation approach to undertake a desktop review of all asset values as at 31/03/20 and the assets specific changes in relation to assets valued on a DRC basis and changes in relation to Car Parks. The Capital

Adjustment Account has decreased by £39.440m in 2019/20 compared to movement of £49.659m in 2018/19. The movement reflects the movement in asset values, disposals and capital expenditure financing in 2019/20. The most significant areas of change were the increase in the revaluation loss on Long Term Investment (Shopping Centres); decrease in the amount of non-current assets written off on disposal or sale, reflecting the reduced value of assets written out (again reflecting Academy Schools); decrease in adjusting amount with the Revaluation Reserve (again reflecting reduced value of assets written out); and movements in the market value of Investment Properties swung from a gain in value in 2018/19 to a loss in 2019/20. There were other minor changes between other unusable reserves but the bulk of the change is accounted for in the two reserves stated above.

2. The analytical review will be part of the papers to be considered by the external auditors during the annual audit and will be used in forming their opinion on the Statement of Accounts that will be reported in the Audit Opinion and Certificate.

Draft Statement of Accounts

2019-2020

Annual Statement of Accounts 2019/20

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2015, and other statutory provisions.

The statement includes:

1. Narrative Report (pages 1 to 13)

2. The Statement of Responsibilities (page 14)

3. The Audit Opinion and Certificate (pages 15 to 18)

4. The Core Financial Statements comprising:-

The Comprehensive Income and Expenditure Statement (page 19)

The Movement in Reserves Statement (pages 20 to 21)

The Balance Sheet (page 22)

The Cash Flow Statement (page 23)

5. The Notes to the Core Financial Statements (pages 24 to 104)

6. Group Accounts**:**

Introduction (pages 105 to 106)

The Group Comprehensive Income and Expenditure Statement (pages 107 to 108)

The Group Movement in Reserves Statement (pages 109 to 111)

The Group Balance Sheet (page 112)

The Group Cash Flow Statement (page 113)

The Group Account Notes (pages 114 to 121)

7. The Housing Revenue Account (pages 122 to 125)

8. The Collection Fund (pages 126 to 127)

9. The Pension Fund Accounts (pages 128 to 167)

10. Glossary (pages 168 to 181)

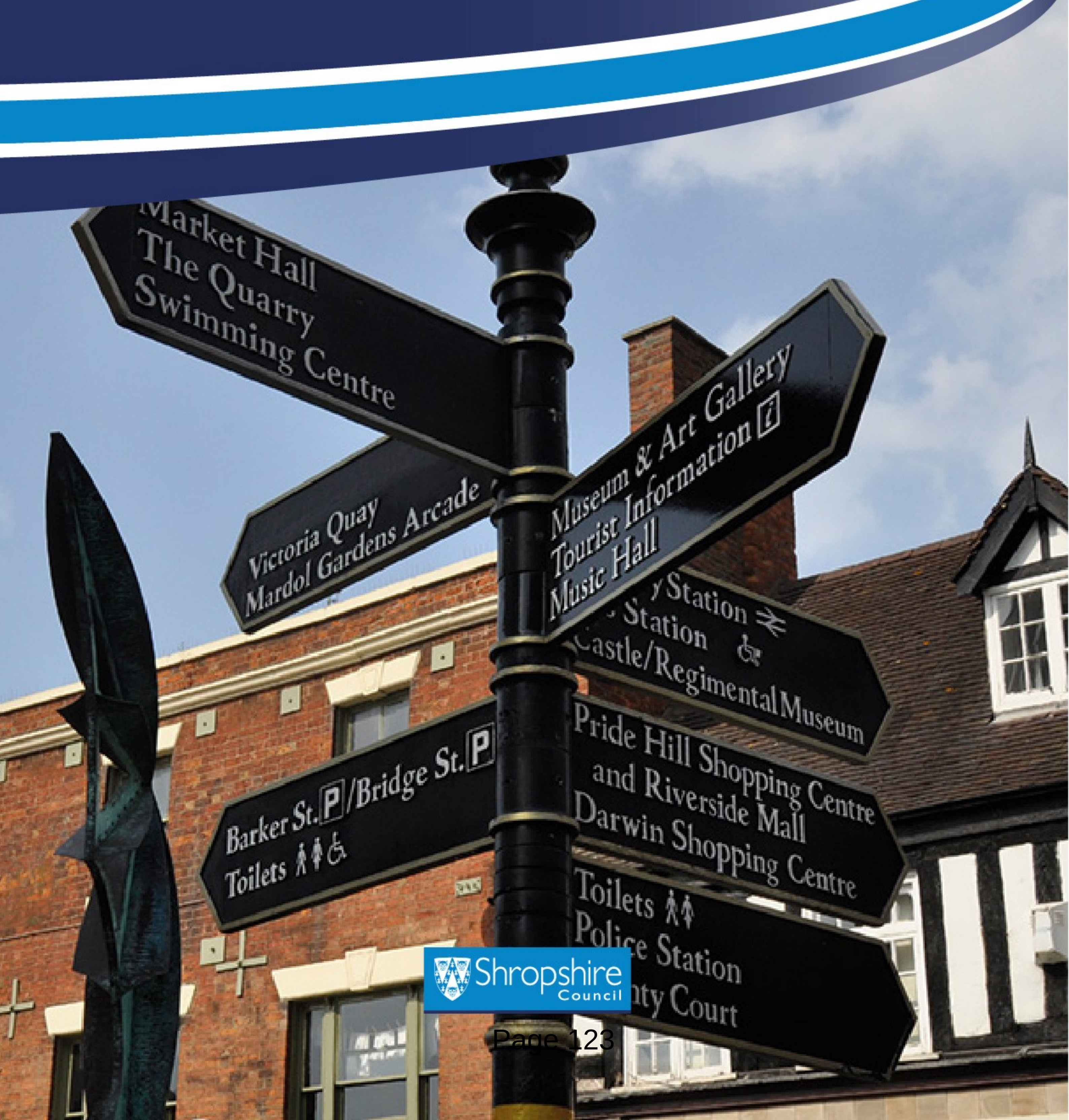
Further information about the Council's Accounts can be obtained from the Finance Department at the Shirehall.

For details please contact James Walton on (01743) 258915, or Cheryl Sedgley on (01743) 258937.

James Walton
Director of Finance, Governance & Assurance

Section 1

Narrative Report



Shropshire Council

The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

The section on accounting policies describes the basis on which the financial information within the statements is prepared. The accounts have been prepared to give a true and fair view of the financial position of the Council and with the underlying assumption of the going concern concept. Information is included within the statements having regard to the concepts of relevance, reliability, comparability and understandability together with a consideration of materiality.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **A Narrative Report** – this provides an effective guide to the most significant matters reported in the accounts, including an explanation of the Council's financial position and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Chief Financial Officer concerning the Council's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the external auditor following the completion of the annual audit.

- **The Core Financial Statements,** comprising:

  - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

  - **The Movement in Reserves Statement –** this shows the movement in the year on the different reserves held by the Council which is analysed into 'usable reserves' and other reserves.

- **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council's financial position as at 31 March 2020. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.

- **The Cash Flow Statement** – this consolidated statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.

- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements and include the Council's accounting policies.

- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the Council is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.

- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.

- **The Collection Fund –** This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

- **The Pension Fund Accounts and Disclosure Notes** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council's own finances. The accounts summarise the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2019/20 and assets and liabilities as at 31 March 2020.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

Financial Report

Revenue Outturn for 2019/20

The revenue budget for 2019/20 was agreed by Council in February 2019. During the course of the year, budgets can move between service areas in line with the Council's approval process, however the Net Budget remains the same, to reflect the funding that the Council receives. Revenue budgets are monitored and reported regularly to Cabinet in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising.

The final outturn position for each Service Area is shown in the table below which compares actual net expenditure with the approved budget. Further details of the outturn position for each directorate is shown in the Revenue Outturn report which is presented to Cabinet and Council in July.

	Final Budget £000	Actual Outturn £000	Controllable Over/ (Under) £000
Service Expenditure			
Adult Services	107,823	108,708	885
Children's Services	49,863	56,531	6,668
Finance, Governance & Assurance	2,828	2,280	(548)
Legal & Democratic Services	506	381	(125)
Place	57,655	63,911	6,256
Strategic Management Board	(14)	(106)	(92)
Workforce & Transformation	414	414	0
Corporate	(5,236)	(16,588)	(11,352)
Net Budget	**213,839**	**215,531**	**1,692**
Funded By:			
Revenue Support Grant	(6,119)	(6,119)	
Top Up grant	(9,870)	(9,870)	
Business Rates	(40,055)	(40,055)	
Collection Fund Surplus	(3,368)	(3,368)	
Council Tax	(154,427)	(154,427)	
Total Funding	**(213,839)**	**(213,839)**	

Budget monitoring reports during the course of the year have shown the following position:

Year End Projected Over/(Under)spend	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Outturn £000
Adult Services	928	4,066	979	885
Children's Services	4,407	4,977	5,262	6,668
Finance, Governance & Assurance	(2)	(84)	(137)	(548)
Legal & Democratic Services	53	219	41	(125)
Place	2,779	2,766	3,575	6,256
Strategic Management Board	(79)	(66)	(212)	(92)
Workforce & Transformation	1,230	1,133	449	0
Corporate	(1,361)	(7,024)	(8,425)	(11,352)
TOTAL	**7,955**	**5,987**	**1,532**	**1,692**

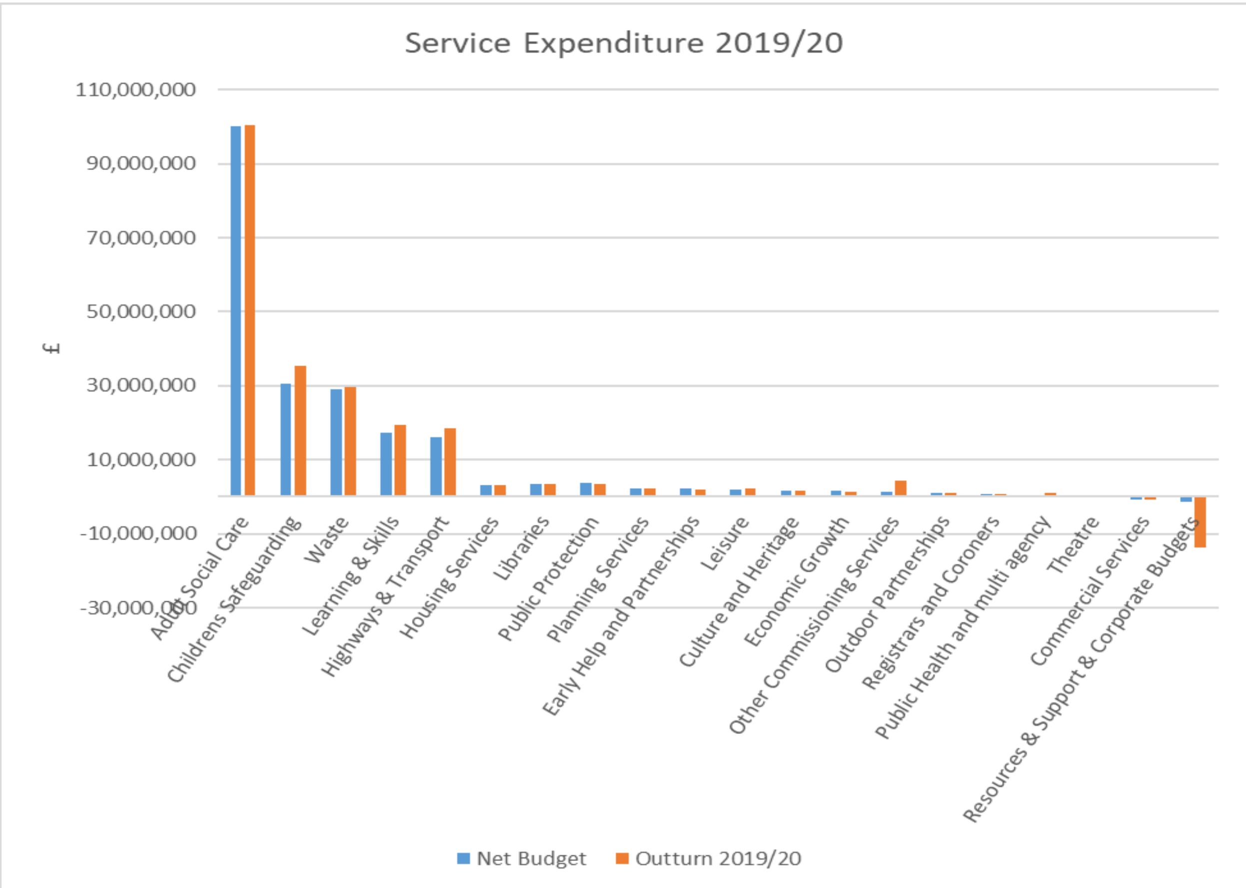
The Council was a projecting a significant overspend at quarter 1 and then again at quarter 2. As a result a number of management actions were instigated including a spending freeze implemented at quarter 2 and specific targets being provided to each service area to reduce the projected outturn down to a reasonable level. This was achieved in the main by all service areas, although further overspends did occur within Children's Services from cost pressures on Home to School Transport as well as significant pressures on residential and foster care placements, and within Place where unachieved savings targets and additional spend was incurred on highways and transport to address potholes and road defects. The overall pressure in both Children's Services and Place has been partially offset by underspends in other service areas through implementing the identified management action at Quarter 2. The Council also applied £0.460m of the General Fund Balance to the revenue account to offset the costs arising from Storm Dennis in February, and has applied £0.387m of COVID-19 funding provided by the Government to offset costs and pressures arising from the pandemic in March 2020.

The overall overspend of £1.692m against service area's budgets represents 0.3% of the gross budget of £568.489m.

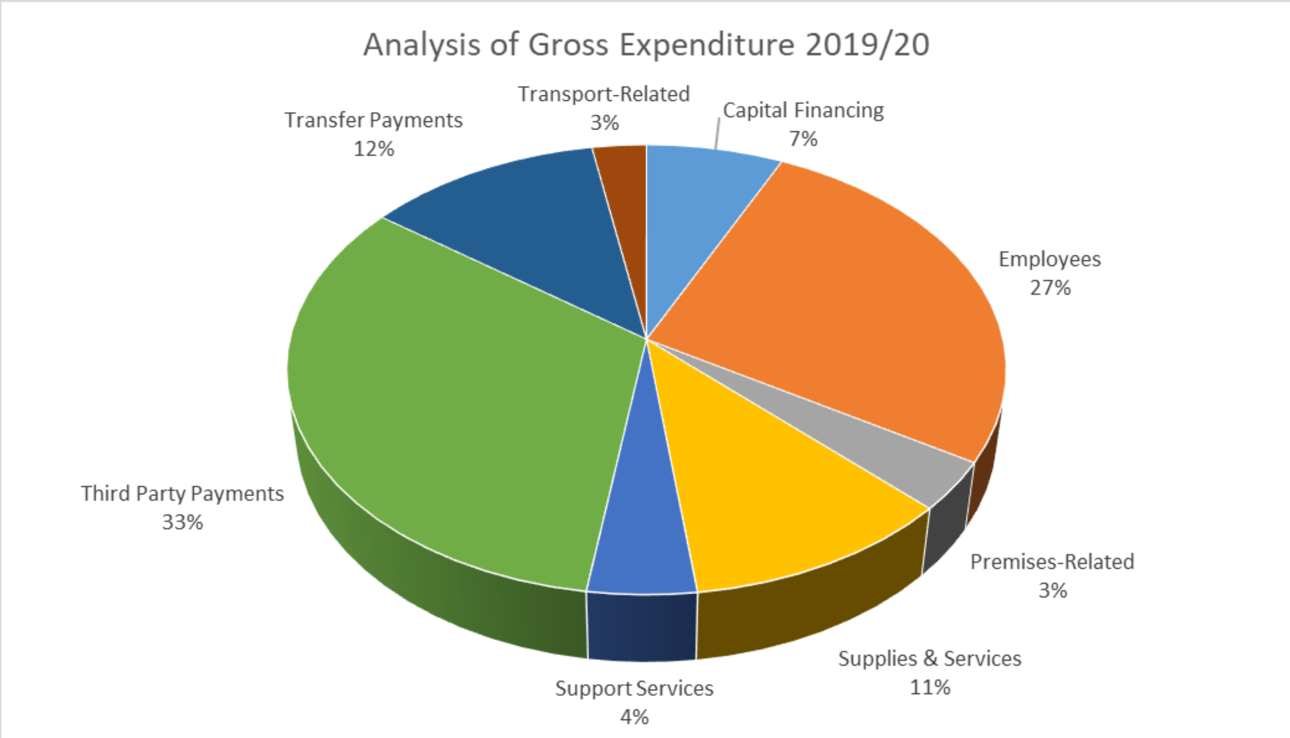
In addition, School balances held under a scheme of delegation, including invested sums, have decreased by £2.289m from the previous year. Schools' balances have to be ring-fenced for use by schools, and schools have the right to spend those balances at their discretion. Four schools converted to academies during the year.

Further detail on the Council's service expenditure can be found within the Comprehensive Income & Expenditure Statement and Notes 6 and 7 to the Accounts.

The chart below demonstrates which services the Council has spent its net budget on. It should be noted that this excludes any expenditure on schools which is funded separately through the Dedicated Schools Grant.



The gross expenditure for the Council, including expenditure for schools was £755.6m and this was spent on the following types of expenditure:



Capital Outturn for 2019/20

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2019/20 as at outturn and slippage into the next financial year. Further details of the outturn position are provided in the Capital Outturn report presented to Cabinet and Full Council.

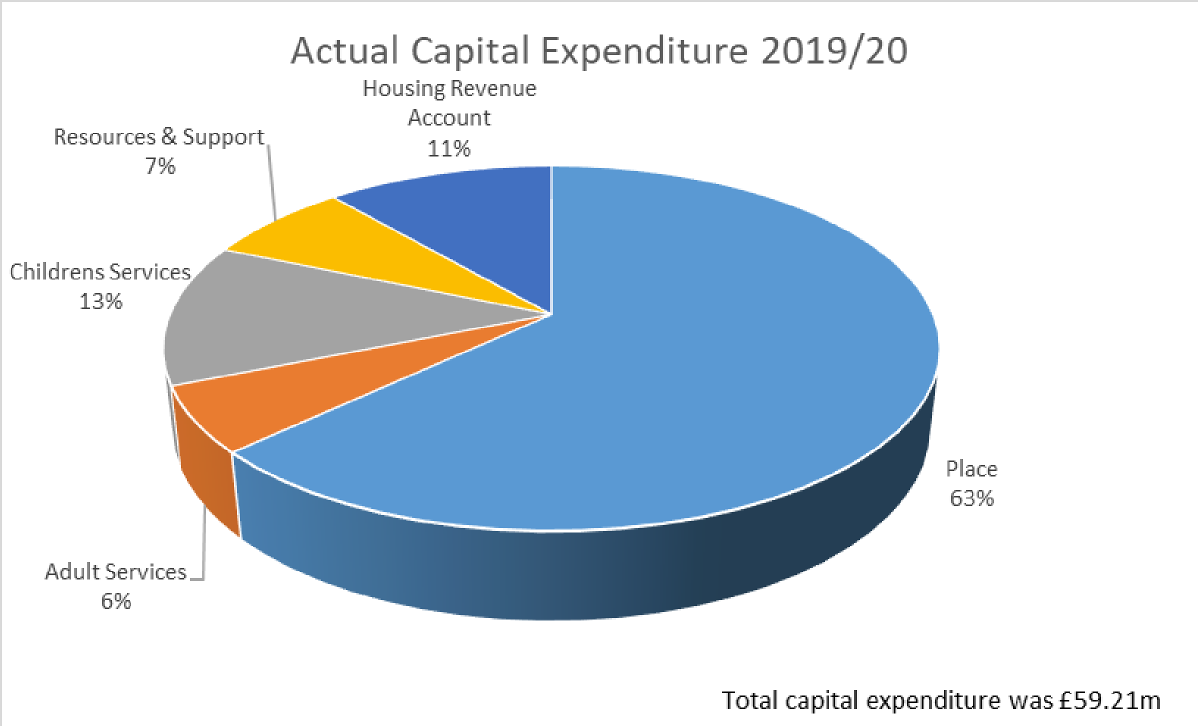
Service Area	Revised Budget 2019/20 £000	Actual Spend 2019/20 £000	Variance 2019/20 £000
General Fund			
Place	44,726	39,043	(5,683)
Adult Services	4,129	3,171	(958)
Children's Services	8,955	6,869	(2,086)
Resources & Support	5,152	4,157	(995)
Total General Fund	**62,962**	**53,240**	**(9,722)**
Housing Revenue Account	8,020	5,969	(2,051)
Total Capital Programme	**70,982**	**59,209**	**(11,773)**

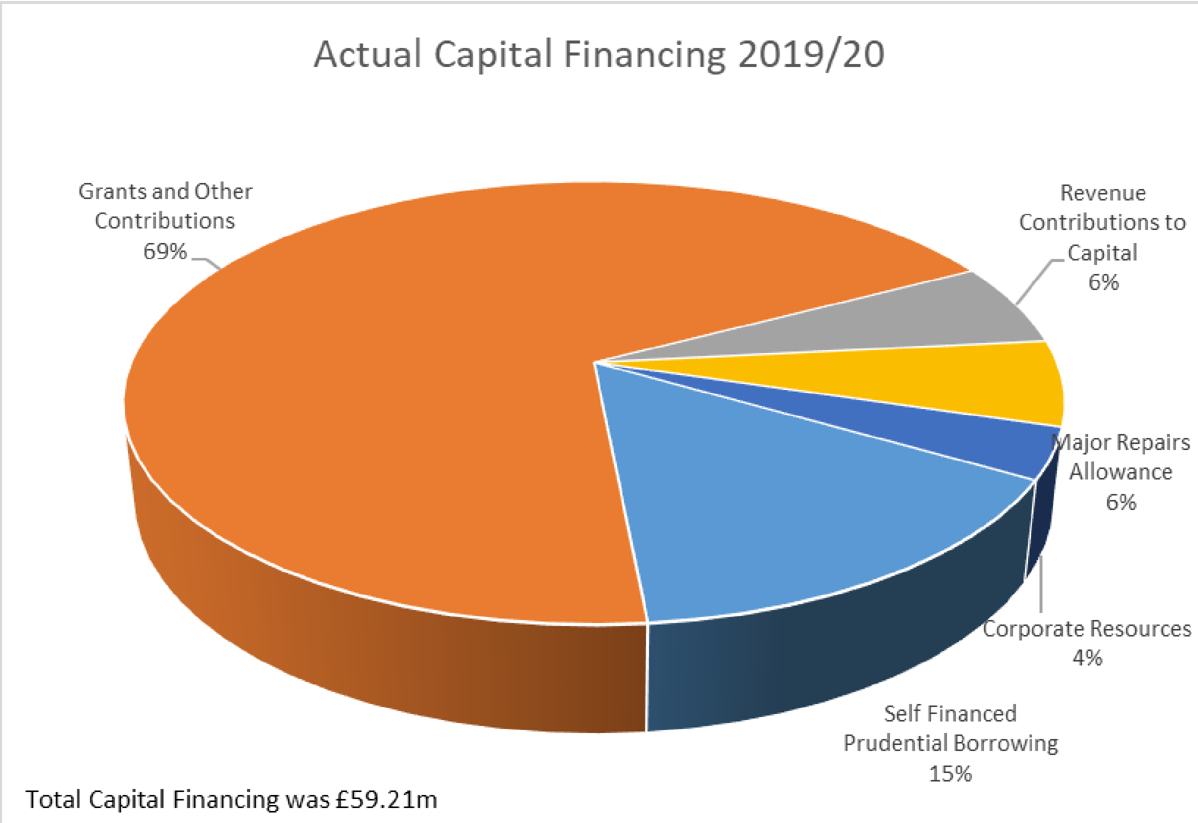
The table below provides a summary of the capital financing for the actual capital expenditure for 2019/20.

Financing	2019/20 £000
Capital Grants & Contributions	40,756
Revenue Contributions	3,584
Major Repairs Allowance	3,700
Self Financing Prudential Borrowing	8,971
Corporate Resources (Prudential Borrowing/Capital Receipts)	2,198
	59,209

The areas of most significant expenditure for schemes undertaken in 2019/20 are as follows:

	Expenditure 2019/20 £000
Place	
Highways and Transport	20,447
North West Relief Road	2,798
Broadband	4,217
Corporate Landlord	10,231
Adult Services	
Disabled Facilities Grants	1,928
Supported Living	1,036
Resources & Support	
Digital Transformation Project	4,157
Children's Services	
Schools Condition Schemes	1,790
Devolved Formula Capital	766
Children's Homes	1,382
Housing Revenue Account	
Housing Major Repairs Programme	4,297
New Build Programme - Phase 4-5	1,404





Reserves

The general fund balance has reduced by £2.027m in 2019/20 to a total of £13.510m. This is mainly due to the overspend within the revenue account during 2019/20 and the need to use the fund for emergency Storm Dennis expenditure which occurred in February. This balance lies below the risk assessed level of balances calculated for 2019/20.

Earmarked reserves have decreased by £3.733m during 2019/20, which includes a decrease in schools delegated balances of £2.228m. Total earmarked reserves are held at £67.993m including school balances of £4.194m.

The most significant earmarked reserve held is the Financial Strategy Reserve at £20.802m which is held in accordance with the financial strategy where the Council will be using one off funding to close the funding gap. It is intended that this balance would be used to fund the funding gap arising in the 2021/22 financial year, however since the COVID-19 pandemic has delivered significant budgetary pressures on the 2020/21 budget, the Council is now considering whether this balance may need to be used to balance the books in 2020/21 and the need to find alternative solutions for the 2021/22 financial year.

Assets

During 2019/20, facilities at three schools were written out of the Council balance sheet because of the schools transferring to Academy School status or the transfer of the buildings and hardstanding areas to the Diocese was completed, prior to the school transferring to Academy School status. In accordance with the Council's accounting policies, these are now valued at nil value in the Council's balance sheet and as a result of the transfers assets of £16.4m were written out of the balance sheet, accounted for as a loss on disposal.

Borrowing

The Council undertakes long-term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the slippage within the capital programme, there has been no additional borrowing required for current schemes.

Cashflow

Cashflow forecasts are prepared for the current and future financial years and are monitored on a daily basis. The cashflow forecast is regularly updated to take account of future changes so the cash position of the Council can be managed appropriately. We are satisfied that cashflow levels are sustainable in the short to medium term based on the information we currently have. This is the case despite the increase in costs and reduction in income levels taken over the period of the pandemic from March to July in 2020.

Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2019, the Council's net pensions liability amounted to £491m. In comparison, the deficit amounts to £496m at 31 March 2020 due to minor changes in financial assumptions impacting on the asset and liability figures. Statutory requirements for funding the deficit means the financial position of the Council remains healthy, as the deficit will be met by increased contributions over the remaining working life of employees.

2019/20 represented the last year of the 3 year actuarial valuation of the pension fund and a new actuarial valuation has been undertaken for the period 2020 – 2024. The Council has again decided to make an early payment of the Local Government Pension Scheme deficit lump sum for a period of 3 years in 2020/21 in order to deliver a revenue saving as a result of lower interest costs from repaying the deficit.

Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 24, and the change to the pension liability in 2019/20 is analysed in note 42 to the accounts.

Shropshire County Pension Fund continued to work with eight other Funds in the Midlands region during the year. LGPS Central Ltd has been established to manage investment assets on behalf of its nine Local Government Pension Scheme (LGPS) funds across the Midlands region. It is a multi-asset manager, investing up to potentially £45 billion of assets from 2018 onwards (£18.5 billion as at March 2020), on behalf of 900,000 LGPS members and 2,500 employers. LGPS Central Ltd is jointly owned on an equal share basis by eight Pension Funds and is a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The key objectives of LGPS Central will be to deliver cost savings and improve risk adjusted investment returns after cost, enable access to a wider range of asset classes for the participating pension funds, and to ensure good governance. LGPS Central will manage a wide range of asset classes, employing a mix of internal and external investment management. The company is a private company limited by shares and was incorporated on 13 October 2016.

Performance in 2019/20

The Council adopted its new Corporate Plan in December 2018 for the period 2019/20 to 2021/22. The Plan sets out high-level outcomes and a range of medium term outcomes and objectives for the coming 12 to 24 months. The medium term outcomes and objectives are the basis for the Council's Strategic Action Plans which are thematic and cross cutting.

The Council's corporate performance management framework is structured around the high-level outcomes listed below and incorporates the measures and project delivery milestones from the strategic action plans.

- **A Healthy Environment**
- **A Good Place to do Business**
- **Sustainable Place and Communities**
- **More People with a Suitable Home**
- **Embrace our Rurality**
- **Care for those in Need at any Age**
- **Your Council**

The delivery of the outcomes for Shropshire is monitored on a quarterly basis. It is presented using a performance portal, which enables a drill down into the measure. The information is reported to Cabinet with the report identifying specific measures by exception. The full information for each measure is published on the performance portal when the report goes to Cabinet and this provides Overview and Scrutiny the opportunity to identify any measures which stand out that they would like to understand in greater detail. They can request additional information and receive it to inform whether they would want to add it to their work programme.

It should be noted that this year's performance has been affected in the last quarter, firstly by the flooding affecting large swathes of the county in February, and then with the impact of the COVID-19 pandemic, which has impacted on some "business as usual" provision, and a redirection of resources to emergency response and provision of essential services only.

A Healthy Environment

After continual increases in the number of visitors to Theatre Severn and the Old Market Hall Cinema in the first 3 quarters of the year, the end of 2019/20 showed a reduction in visitor numbers. Both services were affected by the February floods in Shrewsbury and have also had to close due to the COVID-19 lockdown following government advice.

Libraries remained open during the February floods, but visitor numbers reduced during this period, particularly in the largest branch of Shrewsbury. Libraries were then closed from the 20th March due to the pandemic although a range of online services have remained available.

Recycling rates within Shropshire continue to improve gradually and performance exceeds the national target for recycling household waste. Whilst the floods did not impact on this service, the closure of the Household Recycling Centres during the lockdown will have had an impact on waste tonnages in the early part of 2020/21.

A Good Place to do Business

Employment rates and the number of self-employed was higher than the national and regional averages, although it is unknown at this stage what impact the COVID-19 pandemic will have on these figures. The number of people claiming Universal Credit had been lower than regional and national levels, however it is anticipated that this will increase in 2020/21 as the full effect of the pandemic is felt on the local economy of Shropshire.

Council services such as Planning have been able to maintain a near normal service provision during the pandemic with staff working remotely to process electronic transactions and planning applications and Planning and Building Control staff have delivered statutory functions whilst adhering to social distancing guidelines. However, it has been noted that there has been a decline in the volume of work for Land Charges as house sales have been temporarily halted over the period.

Businesses within Shropshire have been affected by two major events in the county this year which will have impacted on their ability to remain in business, firstly the flooding in February and then the COVID-19 pandemic. Government grants have been made available for both events to help support these businesses and the Council has distributed these as required and within the eligibility criteria of both grant schemes. The long term impact on the business economy in Shropshire remains to be seen to establish what effect these two events will have had and the Council is doing all it can to support businesses back to recovery in line with Government guidance.

Sustainable Places and Communities

The rate of permanent admissions of adults for those aged 65+ into residential or nursing homes is lower than the profile. Admissions for those aged 18 – 64 is higher than in previous years and above target. The actual number of admissions of those aged 18 – 64 remains relatively low and therefore a small increase in numbers shows a higher percentage variance. The service remains committed to enabling people to remain in their homes and maintain a decent quality of life for as long as possible. The service also confirms that it assesses the needs of each person to ensure that the right service is provided at the right time ensuring that residential and nursing care is provided at the most appropriate time.

More People with a Suitable Home

The Council’s new housing development company called Cornovii Developments Limited has been formed to address unmet housing needs within the county. The Business plan for the company has been published during the last quarter of 2019/20 and the company is now progressing with plans to submit planning applications on the first two development sites identified in Oswestry and Shrewsbury. The intention of the company is to develop at least 250 houses a year by the end of the 5 year business plan.

Embrace our Rurality

The Council is working to develop a Community and Rural Strategy to help develop local economies and help communities support one another. Details of this has been shared with town and parish councils and the voluntary sector. It will also be important to reflect and build on the community support that has been evident during the COVID-19 pandemic in developing the strategy.

There is also plans to develop the next Local Transport Plan for Shropshire. This will include enhancing links to economic growth and the local plan review for each area but also incorporate Shropshire Council’s aspirations to tackle carbon emissions and climate change.

Care for those in Need at any Age

During January 2020, Ofsted and the Care Quality Commission conducted a week long joint inspection of the Special Educational Needs and/or Disabilities (SEND) services provided in Shropshire. Whilst the report identified some positive outcomes for young people it also identified significant areas of weakness. The inspectors determined that a Written Statement of Action is required because of significant areas of weakness in the area's practice. It was determined that the local authority and the area's clinical commissioning groups (CCGs) are jointly responsible for submitting the written statement to Ofsted. This is now being prepared with the CCG and will include initial actions such as reviewing the governance structure to ensure greater accountability across all partners and increased scrutiny of work undertaken to secure improvement.

The Council has again seen an increase in the number of Looked After Children in the county. The rate of increase in the year has slowed during 2019/20 however the rate of children looked after is higher than the national average.

Performance levels on delayed transfers of care from hospital have been maintained with teams pro-actively working with different hospital trusts on a day-to-day basis. Performance for the year to date shows that the Council remains on target for this and is within the top quartile of performers.

Your Council

The number of staff employed by the Council has increased by 40 over the course of the year and is due to the recruitment drive to attract new and additional social worker posts into the Council to help reduce the reliance on agency staff. Also there has been a restructure within the Highways team which has had a net effect of increasing the number of posts within the structure, and also a number of casual staff in leisure services have now been contracted.

All staff have seen a change in the way that that services are delivered since the start of the pandemic with over 2,000 staff working from home on the Council's IT systems. It has also been necessary to redeploy some staff to support the delivery of essential services during the pandemic, particularly for staff where their service areas have not been able to be provided over the period. It has also been necessary to furlough some staff, particularly in services that have stopped and were funded purely by income generation from fees and charges.

It should be noted that whilst the COVID-19 pandemic has had a significant impact on service provision, the ability to continue to deliver essential services in a different and more efficient way has provided the Council with the opportunity to consider how services will be delivered by the Council in the future.

Current and Future Prospects

The Council produced a Medium Term Financial Strategy for the period 2020/21 – 2024/45, and whilst the plan had managed to identify a balanced budget for 2020/21 through the use of one off grant balances and reserves, the future financial plan does not yet deliver a balanced and sustainable budget for the long-term future. Obviously the COVID-19 pandemic has impacted the delivery of the 2020/21 budget significantly with an anticipated cost pressure of £11.56m arising from addressing the need to support communities and deliver social distancing measures during 2020/21, and reduced income of £15.37m as a result of having to close facilities and reduced council tax and business rate income of £5.18m. There has also been an impact on planned savings delivery for 2020/21 with delays anticipated in delivering savings, due to the Council needing to focus instead on delivering emergency support to the communities of Shropshire. Overall it is anticipated that the Council will have a budgetary pressure of just under £36m arising from COVID-19. The Government has provided two tranches of funding to help support local authorities and this totals £17.918m leaving a shortfall of £17.8m still to be funded. The Government are now planning to provide a further increase to the grant provided, although by comparison this is anticipated to be significantly lower than the amount provided so far, but they also propose to provide income guarantees to help address the funding pressure that authorities face. The full details are still to be received although any assistance would reduce the need to use the Financial Strategy Reserve which had been earmarked for 2021/22 and so will allow time for the Council to reconsider its future financial strategy more fully in 2020/21 when the full impact of Covid-19 can be determined.

The impact of the COVID-19 pandemic has also meant that the introduction of 75% business rates retention alongside the fair funding review has been further delayed back to the 2022/23 financial year. The uncertainty over the detail of these proposals makes it extremely difficult for the Council to formulate any long term plans to deliver a sustainable budget and future for the Council.

Next year we will be investing over £127 million of capital funding into local projects. The capital programme remains priority led, reflecting the need for growth in the Shropshire economy, investment in infrastructure and roads, and significant funding to deliver superfast broadband across much of Shropshire in the coming years.

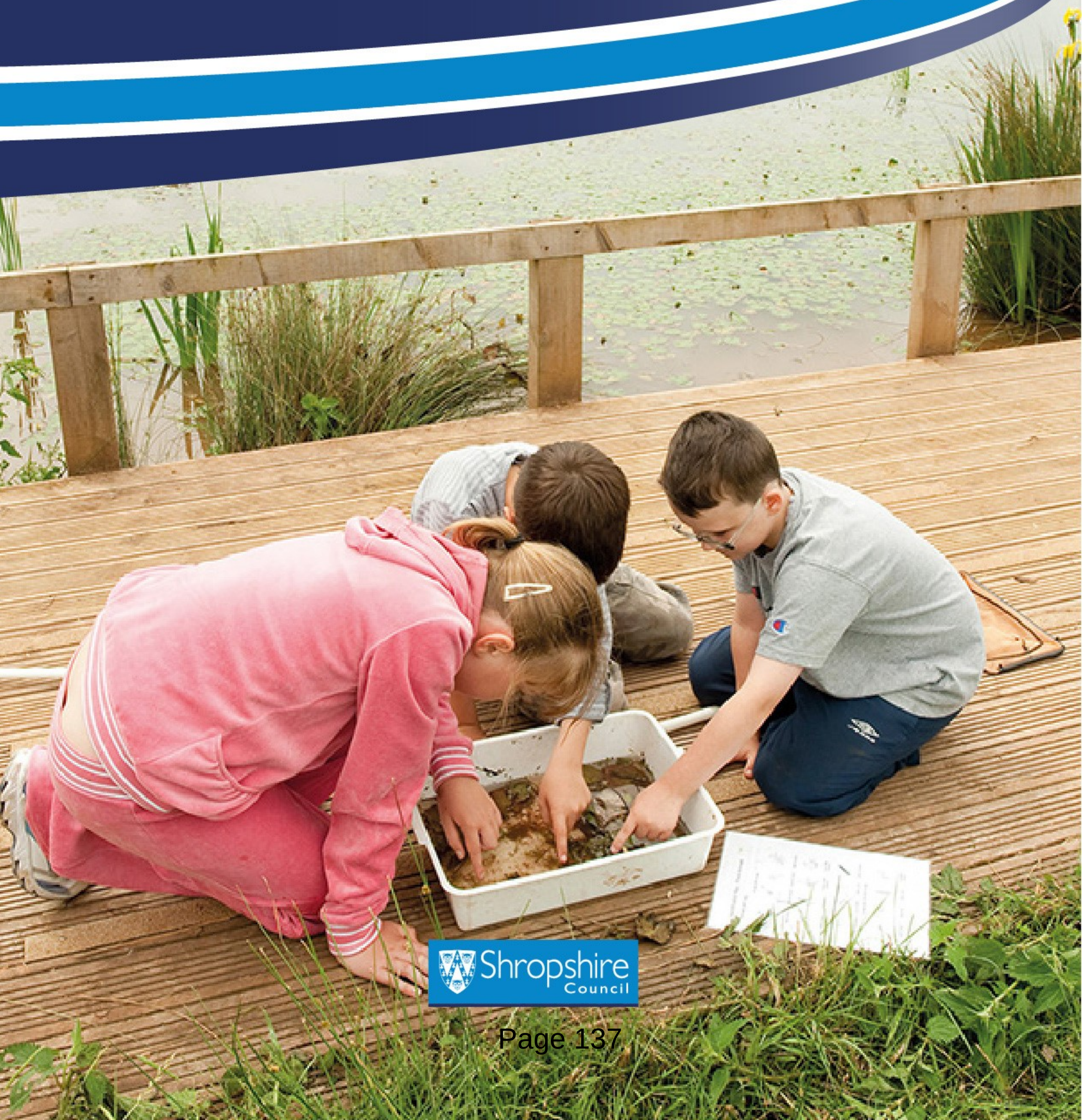
The bottom line is, of course, that we have a statutory duty to set a legal budget. This is becoming increasingly difficult as each year progresses. The two emergency events of flooding and COVID-19 have demonstrated the need to hold sufficient balances in reserve to assist with balancing the books should these be required, however the delivery of continual savings on the budget is becoming more and more difficult. The authority needs to understand the longer term financial funding position from the Government as soon as possible so that it can make sustainable decisions that will deliver a long term financial plan for the authority.

Brexit

The UK formally left the EU on 31 January 2020 but then entered a period of transition which is due to end on 31 December 2020. The Council has received £0.315m in Government funding over 2018/19 and 2019/20 in order to prepare for Brexit. So far, the Council has spent £0.044m in preparations for Brexit, and further spend is anticipated in 2020/21 as the country moves towards the end of the transition period at the end of the 2020 calendar year. The Council is actively planning for any service changes that may be required in the event of Brexit and will be monitoring any potential impact that Brexit has on inflation or interest rates and hence on the financial position of the Council.

Section 2

Statement of Responsibilities



Shropshire Council

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance, Governance & Assurance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approved by Council

The Council's Statement of Accounts for 2019/20 was formally approved at a meeting of the Audit Committee on XX September 2020.

Peter Adams
Chair of the Audit Committee
XX September 2020

Responsibilities of Director of Finance, Governance & Assurance

The Director of Finance, Governance & Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Director of Finance, Governance & Assurance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Director of Finance, Governance & Assurance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Director of Finance, Governance & Assurance

I hereby certify that the Statement of Accounts present a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2020.

James Walton
Director of Finance, Governance & Assurance
9 July 2020

Audit Opinion and Certificate

Shropshire Council

Audit Opinion and Certificate

AWAIT FINAL AUDIT REPORT FROM GRANT THORNTON

Section 4

Core Financial Statements

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19 Restated				2019/20		
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
			Expenditure on Continuing Services (Notes 6, 7, 8 and 9)			
163,329	(61,452)	101,877	Adult Social Care	177,619	(64,931)	112,688
9,741	(18,150)	(8,409)	Local Authority Housing	10,380	(18,366)	(7,986)
198,979	(143,422)	55,557	Children's Services	196,766	(127,946)	68,820
64,305	(61,691)	2,614	Finance, Governance and Assurance	56,965	(54,188)	2,777
604	(491)	113	Legal and Democratic Services	1,703	(1,027)	676
135,016	(44,889)	90,127	Place	156,708	(45,499)	111,209
0	0	0	Strategic Management Board	0	0	0
5,740	(60)	5,680	Workforce and Transformation	5,743	(61)	5,682
133	(7,133)	(7,000)	Corporate	14,654	(10,121)	4,533
577,847	**(337,288)**	**240,559**	**Net Cost of Services**	**620,538**	**(322,139)**	**298,399**
		81,827	Other Operating Expenditure (Note 12)			27,542
		30,986	Financing and Investment Income and Expenditure (Note 13)			39,556
		(284,993)	Taxation and Non Specific Grant Income (Note 14)			(292,441)
		68,379	**(Surplus) or Deficit on Provision of Services**			**73,056**
		(39,431)	(Surplus) or Deficit on Revaluation of Non-Current Assets			(92,765)
		119	Impairment Losses on Non-Current Assets Charged to the Revaluation Reserve			0
		56,992	Remeasurement of the Net Defined Benefit Liability			(28,057)
		17,680	**Other Comprehensive Income and Expenditure**			**(120,822)**
		86,059	**Total Comprehensive Income and Expenditure**			**(47,766)**

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2019/20	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**
Movement in reserves during 2019/20									
Surplus or (deficit) on the provision of services	(78,772)	0	**(78,772)**	5,716	0	0	**(73,056)**	0	**(73,056)**
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	**0**	120,822	**120,822**
Total Comprehensive Income and Expenditure	**(78,772)**	**0**	**(78,772)**	**5,716**	**0**	**0**	**(73,056)**	**120,822**	**47,766**
Adjustments between accounting basis & funding basis under regulations (Note 10)	73,083	0	**73,083**	(5,459)	252	7,587	**75,463**	(75,463)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(5,689)**	**0**	**(5,689)**	**257**	**252**	**7,587**	**2,407**	**45,359**	**47,766**
Transfers to/(from) Earmarked Reserves (Note 11)	3,663	(3,733)	**(70)**	70	0	0	**0**	0	**0**
Increase/(Decrease) in 2019/20	**(2,026)**	**(3,733)**	**(5,759)**	**327**	**252**	**7,587**	**2,407**	**45,359**	**47,766**
Balance at 31 March 2020	**13,510**	**67,993**	**81,503**	**10,141**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**

Movement In Reserves Statement

2018/19	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2018	**15,311**	**69,839**	**85,150**	**8,225**	**4,514**	**21,426**	**119,315**	**320,214**	**439,529**
Movement in reserves during 2018/19									
Surplus or (deficit) on the provision of services	(74,082)	0	**(74,082)**	5,703	0	0	**(68,379)**	0	**(68,379)**
Other Comprehensive Income and Expenditure	0	0	**0**	0	0	0	**0**	(17,680)	**(17,680)**
Total Comprehensive Income and Expenditure	**(74,082)**	**0**	**(74,082)**	**5,703**	**0**	**0**	**(68,379)**	**(17,680)**	**(86,059)**
Adjustments between accounting basis & funding basis under regulations (Note 10)	76,194	0	**76,194**	(4,114)	(274)	12,972	**84,778**	(84,778)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,112**	**0**	**2,112**	**1,589**	**(274)**	**12,972**	**16,399**	**(102,458)**	**(86,059)**
Transfers to/(from) Earmarked Reserves (Note 11)	(1,887)	1,887	**0**	0	0	0	**0**	0	**0**
Increase/(Decrease) in 2018/19	**225**	**1,887**	**2,112**	**1,589**	**(274)**	**12,972**	**16,399**	**(102,458)**	**(86,059)**
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

2018/19		2019/20	
£000		£000	£000
1,069,254	Property, Plant & Equipment (Note 15)	1,138,479	
2,335	Heritage Assets	2,260	
50,884	Investment Property (Note 16)	47,652	
4,051	Intangible Assets	7,376	
599	Assets Held for Sale	585	
1,127,123	**Total Non Current Assets**		**1,196,352**
40,920	Long Term Investment (Note 21)	20,206	
19,564	Long Term Debtors (Note 21)	19,857	
1,187,607	**Total Long Term Assets**		**1,236,415**
	Current Assets		
3,822	Current Held for Sale Investment Properties (Note 16)	740	
1,432	Assets Held for Sale	3,102	
64,910	Short Term Investments (Note 21)	64,500	
702	Inventories	572	
55,943	Short Term Debtors (Notes 21, 23 & 24)	67,373	
64,060	Cash & Cash Equivalents (Notes 21 & 25)	93,007	
190,869	**Total Current Assets**		**229,294**
1,378,476	**Total Assets**		**1,465,709**
	Current Liabilities		
(7,005)	Bank Overdraft (Notes 21 & 25)	(14,644)	
(1,101)	Deferred Income	0	
(10,873)	Short Term Borrowing (Note 21)	(6,013)	
(76,401)	Short Term Creditors (Notes 21 & 26)	(106,991)	
(2,167)	Provisions (Note 27)	(3,576)	
(3,180)	Grants Receipts in Advance - Revenue (Note 39)	(10,446)	
(2,779)	Grants Receipts in Advance - Capital (Note 39)	(4,893)	
(103,506)	**Total Current Liabilities**		**(146,563)**
1,274,970	**Total Assets Less Current Liabilities**		**1,319,146**
	Long Term Liabilities		
(661)	Long Term Creditors (Note 21)	(649)	
(307,568)	Long Term Borrowing (Note 21)	(303,568)	
(112,406)	Other Long Term Liabilities (Note 20)	(106,914)	
(490,621)	Pensions Liability (Note 42)	(495,700)	
(10,244)	Provisions (Note 27)	(11,079)	
(921,500)	**Total Long Term Liabilities**		**(917,910)**
353,470	**Net Assets**		**401,236**
	Financed by:		
135,714	Usable Reserves (Note 28)	138,121	
217,756	Unusable Reserves (Note 29)	263,115	
353,470	**Total Reserves**		**401,236**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

2018/19 £000	Revenue Activities	2019/20 £000	2019/20 £000
68,379	Net (surplus) or deficit on the provision of services	73,056	
(139,956)	Adjust net surplus or deficit on the provision of services for non cash movements	(152,807)	
74,081	Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities	55,113	
2,504	**Net cash flows from Operating Activities (Note 30)**		**(24,638)**
(26,272)	Investing Activities (Note 31)	(5,390)	
(870)	Financing Activities (Note 32)	8,720	
(24,638)	**Net (increase) or decrease in cash and cash equivalents**		**(21,308)**
32,417	Cash and cash equivalents at the beginning of the reporting period		57,055
57,055	**Cash and cash equivalents at the end of the reporting period (Note 25)**		**78,363**

Section 5

Notes to the Core Financial Statements

Shropshire Council

Notes to the Core Financial Statements

1. Accounting Policies

1.1 ... General

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices under Section 21 of the Local Government Act 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on the assumption that the Council will continue to operate for the foreseeable future. This assumption is made because the Council carries out functions essential to the local community and are themselves revenue-raising bodies. If the Council were in financial difficulty alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

1.2 Accruals of Expenditure and Income

Revenue transactions are recorded on an accruals basis in accordance with proper accounting practices. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Cash and Cash Equivalents

Cash is defined for the purpose of this statement, as cash in hand and deposits with financial institutions repayable on demand without penalty on notice. Cash equivalents are short term, highly liquid investments, normally with a maturity of 90 days or less, that are readily convertible to known amounts of cash.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5. Non-Current Assets - Intangible

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the Council (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually between five and seven years.

1.6. Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Recognition
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

Initial Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at current value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
Operational	
Council Dwellings	Existing Use Value – Social Housing (EUV-SH)
Land & Buildings	Existing Use Value (EUV) – determined as the amount that would be paid for the asset in its existing use. Depreciated Replacement Cost (DRC) – for specialist properties where there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold.
Vehicles, Plant & Equipment	Depreciated Historic Cost (HC)
Infrastructure	Historic Cost (HC)
Community Assets	Historic Cost (HC)
Non-operational	
Surplus Assets	Market Value (MV) fair value measurement estimated at highest and best use from a market participant's perspective.
Assets Under Construction	Historic Cost (HC)

Assets included in the Balance Sheet at current value are subject to a full revaluation with sufficient regularity to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. In the intervening years the valuations are subject to an annual desktop review to update the valuation to the balance sheet date.

When new material assets are acquired/constructed or assets substantially enhanced or there is a change in use of the asset; the asset will be valued in the financial year in which the asset becomes operational. Where there is a change in use of the asset, the impact of this will be considered to determine if a revaluation is required.

The Housing Revenue Account Council Dwellings are subject a full valuation every five years and to an annual desktop review to update the valuation to the balance sheet date; undertaken by the Valuation Office Agency.

When an asset is revalued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 1.9), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in the Surplus or Deficit on the Provision of Services.

<u>Componentisation</u>
Where components of an asset are significant in value in relation to the total value of the asset and they have substantially different economic lives, they are recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010. Significant assets for this purpose are properties with a capital value of £2.5m or over, where depreciation is £100,000 per annum or over, or any component that represents 25% of the total capital value.

<u>Derecognition</u>
The carrying amount of an item of property, plant and equipment shall be derecognised:

- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount, an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (based on Agreement – Section 11(6) of the Local Government Act 2003) of receipts relating to dwellings disposed of under the Right to Buy Scheme are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a 'housing pooled capital receipt' is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance in the Movement in Reserves Statement.

Where a component of an asset is replaced or restored, the carrying amount of the old component is derecognised, based on the cost of the new component indexed back to the last valuation date. Where the new expenditure is deemed to also enhance the component of the original asset e.g. energy efficiency schemes the carrying amount of the old component is reduced further based on an assessment of the level of enhancement.

1.7. Investment Properties

An investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. As such Investment Properties are subject to an annual review to ensure their valuation reflects fair value at the balance sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.8. Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of, reclassified to short terms investment properties where they are expected to be disposed of within a year of the balance sheet date.

1.9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset’s carrying amount during the period, that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;

- A commitment by the Council to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter in the Surplus or Deficit on the Provision of Services.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.10.Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with the exception of:

- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method. For Council Dwellings the depreciation charge is calculated on a componentised depreciation basis, using the Planned Programme Approach. The depreciation charge is calculated based on the stock data at 1st April, using the stock data of the major components at that date, from the housing condition data. The components are depreciated on a straightline basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.

On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

1.11.Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used on assets used by the service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible assets attributable to the service.

Depreciation, amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings and other properties, which are real charges to the HRA.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 1.15 (The Redemption of Debt). Depreciation, amortisation and revaluation/impairment losses are therefore replaced by revenue provision transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 1.10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement in Reserves Statement.

1.12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and shown as a reconciling item in the Movement in Reserves Statement.

1.13. Heritage Assets

Tangible Heritage Assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. Intangible heritage assets are intangible assets with cultural, environmental, or historical significance.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, due to the unique nature of Heritage Assets, some of the measurement rules are relaxed in relation to the categories of Heritage Assets held as detailed below. This is due to the lack of valuation information and the disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.

- **Outdoor Statues/Monuments/Historic Building Remains**

The Council has a small number of assets relating to Outdoor Statues/ Monuments/ Historic Building Remains. These assets are reported on the balance sheet, but valuation of these assets is not practical due to the unique nature and lack of comparable market values. These assets are held on the balance sheet at depreciated historic cost, where this is available. Where historic cost information is not available due to the age of the asset, the assets are held at nil value.

The Council's Historical Environment Team, including the Shropshire Archaeology Service manage the Council's historic environment and archaeological sites. The Council does not consider that reliable cost or valuation information can be obtained for the assets held under the Historic Environment and Archaeology Service and the majority would fall into the de-minimus category. This is because of the unique nature of the assets held and lack of comparable market values. It is also recognised that the cost of obtaining this information outweighs any benefits. Consequently, the Council does not recognise these assets on the balance sheet, other than those included under Statues/Monuments/Historic Building Remains.

- **Museum and Archives artefacts**

Museum Service

The Shropshire Museum Service runs a countywide service which collects, documents, preserves, exhibits and interprets the material remains of Shropshire's natural and human history for public benefit. The service operates six museums and a museum resource centre.

Principal collections held by the Museum Service include:

- Agricultural
- Archaeology (including Prehistory, Roman, Medieval, Post-Medieval and Foreign)
- Archives
- Biology
- Costume & Textiles
- Decorative & Applied Arts
- Ethnography
- Fine Art
- Geological
- Numismatics
- Social History

The acquisition priorities vary between the principal collections based on existing gaps in the collection and the capabilities and resources available to the service to adequately store, conserve and display collections.

The Museum Service exercises due diligence and makes every effort not to acquire, whether by purchase, gift, bequest or exchange, any object or specimen unless the governing body can acquire a valid title to the item.

By definition, the Museum Service has a long-term purpose and should possess permanent collections in relation to its stated objectives. As a consequence there is a strong presumption against the disposal of any items in the museum's collection. In the event of the Museum Service closing the collections would be offered to other museum authorities and neither the collections nor individual items within them would be sold to generate income.

Complete holdings are not valued, as items are generally unique and full valuation would be extremely expensive; however, some significant items have a market valuation at purchase or insurance valuation. As a consequence only those items for which the Museum Service holds an existing valuation (above a de-minimus threshold of £5,000) are recognised in the balance sheet. These principally consist of fine art paintings and items of decorative art. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Any new acquisitions will be recognised at purchase price valuation. Assets are not subject to a revaluation cycle, with revaluations only undertaken where required by the Museum Service.

<u>Archives</u>

The Shropshire archives and local studies service preserves and make accessible documents, books, maps, photographs, plans and drawings relating to Shropshire past and present. Not all material is owned by the Council, with a significant proportion on deposit from record owners. No reliable cost or valuation information is held for holdings, with items generally unique and valuation would be considered to be extremely expensive. Consequently the Council does not recognise these assets on the balance sheet.

Shropshire Archives has an Acquisition and Disposal policy. Shropshire Archives will acquire material for the study of all aspects of Shropshire past and present. Material will be acquired by transfer, gift, purchase or deposit. Shropshire Archives will only acquire material if the responsible officer is satisfied that the vendor, donor or depositor has a valid title to the material and will not acquire material if it cannot provide adequate storage or professional care for it. There is a strong presumption against the disposal by sale of any material in Shropshire Archives ownership. If materials are to be sold they should first be offered to other appropriate public collecting institutions. All monies received by Shropshire Archives from the sale of material shall be used for the benefit of the Service's collections.

<u>Heritage Assets – Impairment</u>

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance capital expenditure, used to finance expenditure under the new flexibilities around the use of Capital Receipts for transformational revenue purposes over the 4 year period 2018/19 to 2021/22 or are used to repay debt. At the balance sheet date, the Council may opt to set aside capital receipts in-hand within the Capital Adjustment Account to reduce the Capital Financing Requirement and the Minimum Revenue Provision (MRP) charge for the following financial year.

1.15.The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory “Minimum Revenue Provision” (MRP) requirements. For supported borrowing MRP is calculated based on a 45 year annuity basis and utilises Adjustment A (the variance between the credit ceiling and the Capital Financing Requirement (CFR) as at 1st April 2004) to reduce the supported borrowing CFR for MRP purposes. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. These amounts are transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

For HRA debt there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA.

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Where the Council has made capital loans to third parties financed from the Council’s balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

1.16.Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term;

2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised;

3) the lease term is for the major part of the economic life of the asset;

4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

<u>The Council as Lessee</u>

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Council's Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land and buildings are assessed as to whether they are operating or finance leases.

<u>The Council as Lessor</u>

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.17. Government Grants and Contributions

<u>Revenue Grants</u>

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. If there are outstanding conditions on the grant income the income is held on the Balance Sheet as a Government debtor/creditor. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

Capital Grants

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Council has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL) with effect from 1 January 2012. The levy applies to planning applications for the following types of development:

- The formation of one or more new dwellings, (including holiday lets), either through conversion or new build, regardless of size (unless it is 'affordable housing'); or
- The establishment of new residential floor space (including extensions and replacements) of 100sqm or above.

The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects. This will largely be capital expenditure and includes roads and other transport schemes, flood defences, schools and other education facilities, medical facilities, sporting and recreation facilities and open spaces. Five percent of CIL charges will be used to meet the administrative costs of operating the levy.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the Council CIL instalment policy, following commencement date of the chargeable development in accordance with the accounting policy for government grants and contributions set out above.

The only exception for this is CIL monies received on developments where the CIL Liability Notice has been issued after 25th April 2013. On these receipts 15% of gross receipt or 25% in areas with a statutory Neighbourhood Plan in place; is treated as the Neighbourhood Fund element. The Neighbourhood Fund is the portion of CIL provided directly to Town and Parish Councils to be used for the provision, improvement, replacement, operation or maintenance of infrastructure or anything else which is concerned with addressing the demands that development places on an area.

1.18.Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

Financial Assets Measured at Fair Value through Profit of Loss

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued interest receivable at the year end. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial Statements, instead Note 21 to the Core Financial Statements provides details about these soft loans.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.19. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.20.Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

1.21.Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefits is not required, the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but any material liabilities will be disclosed in a separate note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if it is probable that there will be an inflow of economic benefits or service potential and the sum is material to the accounts.

1.22.Inventories

Inventories and stock are valued at the lower of cost price or net realisable value.

1.23.Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2019/20. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

1.24.Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IFRS10 – Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS12 – Disclosure of Interest in Other Entities, IAS 27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting. Subsidiaries and joint ventures have been consolidated within the Council's accounts on a cost basis or market value for property, plant and equipment. Accounting policies have been aligned between the Council and the companies consolidated in the Group.

1.25.Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure. All VAT receivable is excluded from income.

1.26. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave, termination benefits and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement relating to the Spring Term. An accrual has been calculated for other staff based on the amount of untaken leave as at 31 March.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. The cost of these are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure statement.

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The NHS Pensions Scheme, administered by NHS Pensions;
- The Local Government Pensions Scheme, administered by Shropshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However, the arrangements for the Teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the two schemes in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration)
- The assets of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Shropshire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.28. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

1.29.Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document. The Council is deemed to control the services provided under these two PFI schemes, and as ownership of property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the QICS scheme, the liability was written down by an initial capital contribution of £2.5m. At the commencement of the Waste contract the Council made various existing waste infrastructure assets available to the contractor. Under the Waste scheme, not all property, plant and equipment scheduled to be provided in the initial years of the contract has been provided and as a result part of the payments made to the scheme operator have been accounted for as a prepayment, with a corresponding entry also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **Finance cost** – an interest charge as a percentage (based on the Internal Rate of Return of the scheme) of the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out. On recognising the prepayment for lifecycle replacement costs a corresponding entry is also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account. Where works are carried out earlier than planned they are recognised as additions to Property, Plant and Equipment balanced by a temporary increase in the finance lease liability. When the programmed payment takes place the liability is written down.

1.30.Accounting for Council Tax and Non Domestic Rates

The Council Tax income included in the Comprehensive Income & Expenditure Statement is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

As the collection of Council Tax for preceptors (the West Mercia Police and Crime Commissioner, and Shropshire & Wrekin Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Shropshire Council as the billing authority and to the preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation. The Balance Sheet also includes the authority's share of the year end balances relating to arrears, impairment allowances for doubtful debts and prepayments.

In relation to Non-Domestic Rates, Shropshire Council collects income due as an agency arrangement. As with council tax, the cash collected belongs proportionately to Shropshire Council as the billing authority, and to Central Government and Shropshire & Wrekin Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation. The Balance Sheet also includes the authority's share of the year end balances relating to arrears, impairment allowances for doubtful debts, appeals and prepayments.

1.31.Accounting for Local Authority Maintained Schools

All Local Authority Maintained Schools in the Council area are considered to be entities controlled by the Council. In order to simplify the consolidation process and avoid consolidating in Group Accounts a considerable number of separate, relatively small entities; the Council's single entity financial statements include all the transactions of Local Authority Maintained Schools i.e. income, expenditure, assets, liabilities, reserves and cash flows of the schools.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

The Council recognises on balance sheet the non-current assets of schools where the Council legally owns the assets or where the school is in the legal ownership of a non religious body, on the basis that they are the assets of the school and need to be consolidated in to the Council's accounts.

Community schools are owned by the Council and therefore recognised on the balance sheet.

The majority of Voluntary Aided and Voluntary Controlled schools in the Council area are owned by the respective Diocese. There is currently no legal arrangement in place for the School/Council to use the Diocese owned schools. The School/Council uses the school building to provide education under the provisions of the School Standards and Framework Act 1998. On this basis the school assets are used under "mere" licences and the assets are not recognised on the Council’s balance sheet. The only exception to this is there are a small number of schools/part of schools that should have transferred to Diocese under Education Legislation; but the legal transfer has not been completed. These are still recognised in the Council balance sheet with an additional note disclosing that they are due to transfer.

Foundation schools owned by the Diocese are not recognised on the Council balance sheet as the position is the same as Voluntary Aided and Voluntary Controlled. Where ownership lies with the school or the school’s Governing Body the School is recognised on the Council’s Balance Sheet. There are a small number of schools who have recently changed their status to Foundation as part of local area Education Trusts. As yet no legal transfers have taken place of school land and buildings. On the assumption that these trusts will constitute the Governing Bodies of these schools, the schools are to remain on-balance sheet. This will be reviewed when the legal transfers are agreed in case the position is different.

Academy schools are not maintained schools controlled by the Council and as such are not accounted for in the Council’s Accounts. Schools in Council ownership (Community Schools) which become Academies are provided to the Academy on a 125 year peppercorn lease. When schools transfer to Academy status the assets are written out of the balance sheet as at the date that the asset transfers. Additional notes are included in the accounts disclosing details of any schools where approval by the Department for Education to transfer the School to Academy has been granted, but the school has not transferred by the balance sheet date.

1.32. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority’s financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

1.33. Unquoted Equity Investments

The Council holds a majority share of the units in a Jersey Property Unit Trust. The minority share is held by wholly owned subsidiary of the Council - SSC NO.1 LTD a company registered in England and Wales. The asset has been held on the Balance Sheet at fair value through profit and loss and is valued annually. The Council and SSC NO.1 LTD are the beneficial owners of the property, through the trust, the nature of the trust is such that the Council has overall control of the trust through reserved matters. The trustees, who have to be resident in Jersey, make all day to day decisions affecting the trust in the best interests of the unit holders. The trust deeds set out that income and expenditure accrues to the unitholders as it arises and it is presented as such within these financial statements.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

- Amendments to IAS 28 Investment in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle

- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

These changes are not expected to have a material impact on the Council's accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty regarding future levels of funding for local government. The Council has undertaken the rigorous challenge of reviewing its spending and as a result has ensured appropriate savings are built into its medium term financial plans. The Council has determined that this uncertainty regarding future funding levels is not known in sufficient enough detail to provide an indication that its assets would be impaired or services reduced significantly. Any action to reduce spending would be taken in a planned and systematic way to reduce the impact on service delivery.

- The Council takes judgements over the element of control in terms of deciding which assets should be on our balance sheet. One such judgement has been taken around Local Authority Maintained schools and particularly Voluntary Aided, Voluntary Controlled and Foundation schools that are not owned by the Council. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the school's land and buildings on its Balance Sheet where it legally owns the assets or the school Governing Body own the school. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

  The Council has completed an assessment of the different types of schools it controls within the Shropshire Council area to determine how these should be accounted for. The accounting treatment is detailed in the accounting policies (see 1.31).

- The Council has taken a judgement on the control of the Jersey Property Unit Trusts and has determined that through the Council's power as a unit holder the Council has the rights to variable returns and has the ability to affect those returns. The Council has therefore accounted for the Council's share in the Jersey Property Unit Trust as an investment.

- The Council is part of the Marches Local Enterprise Partnership (LEP) along with Herefordshire and Telford & Wrekin. The Council acts as accountable body for the LEP and therefore receives grant income on behalf of the LEP and processes expenditure in line with the grant schemes. The Council has concluded that the role of accountable body is to be deemed as an agent, and therefore the net grant held should not be accounted within the Council's accounts. Further details are provided at Note 45.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There is a risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2020:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Full valuation is carried out a minimum of every 5 years. A desktop valuation review is carried out to update all valuations annually to the Balance Sheet date.	There is a risk of material adjustment in the year when the property is revalued.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	Estimates of remaining useful economic life are provided as part of the valuation and are used to calculate the depreciation charge on a straightline basis.	There is a risk that annual depreciation charges are over or under stated and also correspondingly the NBV of the asset. This could also result in a risk of material adjustment in the year when the property is revalued.
	The outbreak of COVID-19, has seen many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there is a shortage of market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – can be attached to the valuations than would normally be the case. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.	The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of COVID-19 on many sectors of the real estate market and the difficulty in differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.
NDR Appeals Provision	The provision set aside for Non Domestic Rate appeals is estimated based on the number of outstanding appeals as per the Valuation Office and then the percentage rateable value change of successful appeals is applied. An estimate is then calculated for unlodged appeals on the new rating list.	There is a risk that successful appeals will be significantly more than the estimate leading to an increased demand on the NDR collection fund in the year.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. In March 2020 there have been substantial falls in equity markets around the world in relation to the COVID-19 pandemic. This will have consequences for asset values, and these falls in equity markets will be reflected in the accounting figures as at March 2020.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £20.244m.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured or based on quoted prices in active markets (i.e. level 1 inputs), their fair value is measured using	The authority uses the discounted cash flow model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in

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Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes to below.	the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.
Accruals	Estimates of known future expenses or income where amounts are not yet certain are accrued in the year that they relate to. The proportion of estimates within the accruals processed for debtors and creditors are: • Debtors 23% • Creditors 9%	The expense or the income could be either higher or lower than expected. A 10% increase in the estimates for debtors would result in an additional debtor of £0.176m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.121m.
Debt Impairment	The balance of outsanding debtors, including Council Tax and Business Rates debtors, is assessed annually and a bad debt provision calculated to estimate the potential liability from non collection of the outstanding debts. The ongoing impact of COVID-19 has created uncertainly around future collection rates. The estimated impact of this has been included in the calculation however the long-term impact of this is currently unknown.	There is a risk that if collection rates were to deteriorate then the allowance for the impairment of bad debts would need to increase.

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance, Governance & Assurance on 9 July 2020. Events taking place after this date are not reflected in the financial statement or notes.

At balance sheet date, Department of Education approval had been granted to two schools to convert to Academy status. One school has converted to Academy School status in early 2020/21 financial year, this School was in part Council Ownership and the transfer to Diocese ownership was completed prior to the School converting to Academy. The value of the school and associated facilities in the 2019/20 accounts is £3.850m. The remaining school is in Council freehold ownership. The value of the school and associated facilities in the 2019/20 accounts is £5.169m and a conversion date is yet to be confirmed. These are considered as non-adjusting events after the reporting date.

6. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19 Restated						2019/20				
Net expenditure reported for resource management	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net expenditure reported for resource management	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
104,494	(4,711)	99,783	2,094	101,877	Adult Services	109,080	333	109,413	3,275	112,688
0	(4,465)	(4,465)	(3,944)	(8,409)	Local Authority Housing	0	(3,098)	(3,098)	(4,888)	(7,986)
53,725	(2,967)	50,758	4,799	55,557	Children's Services	57,167	(2,312)	54,855	13,965	68,820
1,856	628	2,484	130	2,614	Finance, Governance & Assurance	2,326	241	2,567	210	2,777
552	(459)	93	20	113	Legal and Democratic Services	392	29	421	255	676
105,631	(58,826)	46,805	43,322	90,127	Place	64,481	(7,605)	56,876	54,333	111,209
(224)	224	0	0	0	Strategic Management Board	(107)	107	(0)	0	(0)
356	4,782	5,138	542	5,680	Workforce and Transformation	607	4,625	5,232	450	5,682
(57,742)	62,392	4,650	(11,650)	(7,000)	Corporate	(18,456)	20,620	2,164	2,369	4,533
208,648	**(3,402)**	**205,246**	**35,313**	**240,559**	**Net Cost of Services**	**215,490**	**12,940**	**228,430**	**69,969**	**298,399**
0	(208,947)	(208,947)	36,767	(172,180)	Other Income and Expenditure	0	(222,998)	(222,998)	(2,345)	(225,343)

2018/19 Restated						2019/20				
Net expenditure reported for resource management	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net expenditure reported for resource management	Adjustment to arrive at net amount chargeable to the General Fund and HRA balances	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
208,648	**(212,349)**	**(3,701)**	**72,080**	**68,379**	**Surplus or Deficit**	**215,490**	**(210,058)**	**5,432**	**67,624**	**73,056**
		93,375			Opening General Fund and HRA Balance			97,076		
		3,701			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(5,432)		
		97,076			**Closing General Fund and HRA Balance at 31 March***			**91,644**		

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20												
Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Capital items reported at Directorate level (note 1) £000**	**Pension items reported at Directorate level (note 1) £000**	**Reserves reported at Directorate level (note 1) £000**	**Interest Payable and Receivable reported at Directorate level (note 2) £000**	**Reallocation of traded services and internal recharges (note 2) £000**	**Investment properties/Levies/revenue impairment reported at Directorate level (note 2) £000**	**Other Adjustments (note 3) £000**	**Total to arrive at amount charged to the general fund & HRA £000**	**Adjustments for Capital Purposes £000**	**Net change for the Pensions Adjustments £000**	**Other Differences £000**	**Total Adjustment between funding and accounting basis £000**
Adult Services	0	(1,803)	2,731	0	(502)	(142)	49	333	1,456	1,803	16	3,275
Local Authority Housing	0	0	0	0	0	0	(3,098)	(3,098)	(4,888)	0	0	(4,888)
Children’s Services	0	(2,728)	266	(152)	458	(373)	217	(2,312)	10,836	2,728	401	13,965
Finance, Governance & Assurance	0	(209)	0	0	279	171	0	241	0	210	0	210
Legal & Democratic Services	0	(26)	121	0	(66)	0	0	29	229	26	0	255
Place	0	(1,596)	6,607	(11,941)	(1,660)	715	270	(7,605)	52,727	1,596	10	54,333
Strategic Management Board	0	0	0	0	107	0	0	107	0	0	0	0
Workforce & Transformation	0	(197)	3,115	0	1,707	0	0	4,625	253	197	0	450
Corporate	0	7,271	(9,374)	(8,882)	224	34	31,347	20,620	(4,298)	6,986	(319)	2,369
Net Cost of Services	**0**	**712**	**3,466**	**(20,975)**	**547**	**405**	**28,785**	**12,940**	**56,315**	**13,546**	**108**	**69,969**
Other Income and Expenditure from the Expenditure and Funding Analysis	0	(712)	744	20,975	(547)	(405)	(243,053)	(222,998)	(14,225)	12,277	(397)	(2,345)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**0**	**0**	**4,210**	**0**	**0**	**0**	**(214,268)**	**(210,058)**	**42,090**	**25,823**	**(289)**	**67,624**

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2018/19 Restated Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Capital items reported at Directorate level (note 1) £000	Pension items reported at Directorate level (note 1) £000	Reserves reported at Directorate level (note 1) £000	Interest Payable and Receivable reported at Directorate level (note 2) £000	Reallocation of traded services and internal recharges (note 2) £000	Investment properties/Levies reported at Directorate level (note 2) £000	Other Adjustments (note 3) £000	Total to arrive at amount charged to the general fund & HRA £000	Adjustments for Capital Purposes £000	Net change for the Pensions Adjustments £000	Other Differences £000	Total Adjustment between funding and accounting basis £000
Adult Services	(1,123)	(880)	(1,787)	1	(477)	(445)	0	(4,711)	1,099	995	0	2,094
Local Authority Housing	0	0	0	0	0	0	(4,465)	(4,465)	(3,944)	0	0	(3,944)
Children's Services	(4,416)	(1,441)	2,651	(152)	374	(211)	228	(2,967)	4,244	555	0	4,799
Finance, Governance & Assurance	0	(130)	0	0	758	0	0	628	0	130	0	130
Legal & Democratic Services	(8)	(12)	(88)	0	(351)	0	0	(459)	8	12	0	20
Place	(46,654)	(793)	457	(11,516)	(1,068)	724	24	(58,826)	42,474	848	0	43,322
Strategic Management Board	0	0	0	0	224	0	0	224	0	0	0	0
Workforce & Transformation	(477)	(65)	4,188	0	1,136	0	0	4,782	477	65	0	542
Corporate	54,858	3,676	(7,190)	(9,553)	0	213	20,388	62,392	(4,061)	(7,267)	(322)	(11,650)
Net Cost of Services	**2,180**	**355**	**(1,769)**	**(21,220)**	**596**	**281**	**16,175**	**(3,402)**	**40,297**	**(4,662)**	**(322)**	**35,313**
Other Income and Expenditure from the Expenditure and Funding Analysis	(2,180)	(355)	548	21,220	(596)	(406)	(227,178)	(208,947)	29,587	10,559	(3,379)	36,767
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**0**	**0**	**(1,221)**	**0**	**0**	**(125)**	**(211,003)**	**(212,349)**	**69,884**	**5,897**	**(3,701)**	**72,080**

Note 1) For resource management purposes, the authority includes depreciation, pension charges in relation to IAS19 debits and credits in its directorate reporting, however this needs to be removed as it is not included in the net expenditure chargeable to the general fund and HRA balances.

Note 2) The authority includes income and expenditure in relation to investment properties, interest payable and receivable, levies and trading accounts within the Directorates however this is reported in the financial statements below the cost of services line and therefore the above table shows these items being reallocated. The income and expenditure for Corporate Landlord and Passenger Transport is also adjusted within the amendments for trading/internal recharges.

Note 3) Corporate Funding and Housing Revenue Account are not reported to management as part of the Service Area reporting therefore these items have been included as adjustments in the above table.

Adjustments for Capital Purposes

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
    - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
    - Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
    - Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
    - For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
    - For Financing and investment income and expenditure – the net interest in the defined benefit liability is charged to the CIES.

Other Differences

3) Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
    - For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
    - The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2019/20 £000	2018/19 £000
Expenditure		
Employee benefits expenses	196,150	176,644
Other service expenses	395,127	364,199
Support service recharges	32,314	35,719
Depreciation, amortisation, impairment	68,574	62,859
Interest payments	25,916	26,003
Precepts and levies	8,339	7,880
Payments to Housing Capital Receipts Pool	584	585
(Gain)/Loss on the disposal of assets	18,532	73,362
Total Expenditure	**745,536**	**747,251**
Income		
Fees, charges and other service income	(165,491)	(160,127)
Interest and investment income	(2,129)	(1,920)
Income from council tax, non-domestic rates	(216,514)	(207,373)
Government grants and contributions	(288,346)	(309,452)
Total Income	**(672,480)**	**(678,872)**
Surplus or Deficit on the Provision of Services	**73,056**	**68,379**

9. REVENUE CONTRACTS WITH CUSTOMERS

The Council's income from revenue contracts with customers is analysed by Service Area as follows:

Fees, charges and other service income	2019/20 £000	2018/19 £000
Adult Services	(42,698)	(38,780)
Local Authority Housing	(18,389)	(18,174)
Children's Services	(12,722)	(12,156)
Finance, Governance and Assurance	(8,669)	(8,983)
Legal and Democratic Services	(4,960)	(4,561)
Place	(59,116)	(59,915)
Strategic Management Board	(1,034)	(984)
Workforce and Transformation	(17,337)	(16,075)
Corporate	(566)	(499)
Total Income	**(165,491)**	**(160,127)**

10. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2019/20	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	25,822	0	0	0	0	(25,822)
Financial instruments	(319)	0	0	0	0	319
Council tax and NDR	(412)	0	0	0	0	412
Holiday pay	441	0	0	0	0	(441)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	59,610	(1,139)	3,953	0	14,227	(76,651)
Total Adjustments to Revenue Resources	**85,142**	**(1,139)**	**3,953**	**0**	**14,227**	**(102,183)**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(2,465)	(2,633)	0	5,765	0	(667)
Administrative costs of non-current asset disposals	36	51	0	(87)	0	0
Payments to the government housing receipts pool	584	0	0	(584)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(6,990)	0	0	0	0	6,990
Capital expenditure financed from revenue balances	(3,224)	(1,738)	0	0	0	4,962
Total Adjustments between Revenue and Capital Resources	**(12,059)**	**(4,320)**	**0**	**5,094**	**0**	**11,285**
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(5,135)	0	5,135
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(3,701)	0	0	3,701

2019/20	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Application of capital grants to finance capital expenditure	0	0	0	0	(6,640)	6,640
Cash payments in relation to deferred capital receipts	0	0	0	41	0	(41)
Total Adjustments to Capital Resources	**0**	**0**	**(3,701)**	**(5,094)**	**(6,640)**	**15,435**
Total Adjustments	**73,083**	**(5,459)**	**252**	**0**	**7,587**	**(75,463)**

2018/19 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs	6,619	0	0	0	0	(6,619)
Financial instruments	(322)	0	0	0	0	322
Council tax and NDR	(3,379)	0	0	0	0	3,379
Holiday pay	(722)	0	0	0	0	722
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	82,678	(1,497)	3,979	0	15,063	(100,223)
Total Adjustments to Revenue Resources	**84,874**	**(1,497)**	**3,979**	**0**	**15,063**	**(102,419)**
Adjustments between Revenue and Capital Resources:						
Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve	(827)	(2,221)	0	3,691	0	(643)
Administrative costs of non-current asset disposals	0	38	0	(38)	0	0
Payments to the government housing receipts pool	585	0	0	(585)	0	0
Pooling of HRA resources from revenue to the Major Repairs Reserve	0	0	0	0	0	0
Statutory provision for the repayment of debt	(6,150)	0	0	0	0	6,150
Capital expenditure financed from revenue balances	(2,288)	(434)	0	0	0	2,722
Total Adjustments between Revenue and Capital Resources	**(8,680)**	**(2,617)**	**0**	**3,068**	**0**	**8,229**

2018/19 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to Capital Resources:						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(3,094)	0	3,094
Use of the Major Repairs Reserve to finance capital expenditure	0	0	(4,253)	0	0	4,253
Application of capital grants to finance capital expenditure	0	0	0	0	(2,091)	2,091
Cash payments in relation to deferred capital receipts	0	0	0	26	0	(26)
Total Adjustments to Capital Resources	**0**	**0**	**(4,253)**	**(3,068)**	**(2,091)**	**9,412**
Total Adjustments	**76,194**	**(4,114)**	**(274)**	**0**	**12,972**	**(84,778)**

11. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

	Balance at 31 March 2018 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31 March 2020 £000
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations	12,644	(8,152)	12,916	17,408	(4,363)	3,081	16,126
Insurance Reserves	4,165	(430)	207	3,942	(278)	100	3,764
Reserves of trading and business units	701	(223)	0	478	(536)	58	0
Reserves retained for service departmental use	44,957	(20,648)	19,162	43,471	(22,080)	22,518	43,909
School Balances	7,372	(5,377)	4,432	6,427	(6,078)	3,845	4,194
Total	**69,839**	**(34,830)**	**36,717**	**71,726**	**(33,335)**	**29,602**	**67,993**

RESERVES

Sums set aside for major schemes, such as capital developments, or to fund major reorganisations – includes redundancy reserve, and specific reserves to fund capital and major projects including service transformation within the Council.

Insurance Reserves – includes fire liability and motor insurance reserves to fund the Council's future self insurance liabilities.

Reserves of trading and business units – includes any balance carried forward in relation to Shire Services to help smooth trading profits and losses over future years.

Reserves retained for service departmental use – includes a number of specific earmarked reserves for known service expenditure in future years. Significant balances include the Financial Strategy reserve, a severe weather reserve and a reserve including unringfenced revenue grants that have not been spent.

School Balances – includes unspent balances of budgets delegated to individual schools.

A breakdown of all specific earmarked reserve balances is shown in the 2019/20 Revenue Outturn report.

12. OTHER OPERATING EXPENDITURE

	2019/20 £000	2018/19 £000
Parish Council Precepts	8,211	7,754
Levies	128	125
Payments to the Government Housing Capital Receipts Pool	584	585
(Gains)/losses on the disposal of non-current assets*	18,279	73,346
(Gains)/losses on change in valuation of non-current assets	340	17
	27,542	**81,827**

* Losses on disposal in 2018/19 and 2019/20 include the transfer of schools to Academy which resulted in a significant asset value being written out of the balance sheet in 2018/19. Reduced number of schools have converted to Academy in 2019/20. Further details are provided at Note 15.

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2019/20 £000	2018/19 £000
Interest payable and similar charges	25,916	26,003
Pensions interest cost and expected return on pensions assets	11,565	10,210
Interest receivable and similar income	(2,128)	(1,920)
Income and expenditure in relation to investment properties and changes in their fair value	2,625	(3,834)
Revenue Impairment Losses	461	517
Other Investment Income	0	(14)
(Surpluses)/deficits on Trading Activities	1,117	24
	39,556	**30,986**

14. TAXATION AND NON SPECIFIC GRANT INCOMES

	2019/20 £000	2018/19 £000
Council tax income	(165,000)	(156,469)
Non domestic rates	(51,514)	(50,904)
Non ringfenced government grants	(38,002)	(33,942)
Capital grants and contributions	(37,925)	(43,678)
	(292,441)	**(284,993)**

15. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non-current assets held by the Council during 2019/20.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2019	**196,767**	**526,312**	**19,883**	**525,492**	**3,578**	**2,115**	**7,525**	**1,281,672**	**137,179**
Additions	5,808	4,913	3,940	17,425	0	0	8,354	**40,440**	2,303
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10	48,862	0	0	0	(186)	0	**48,686**	4,801
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(630)	(4,015)	0	0	0	177	0	**(4,468)**	433
Derecognition – disposals	(2,020)	(17,805)	(61)	0	0	0	0	**(19,886)**	0
Derecognition – other	(142)	(1,951)	(1,463)	0	(617)	(80)	0	**(4,253)**	(1,111)
Assets reclassified (to)/from Held for Sale	(500)	(947)	0	0	0	(595)	0	**(2,042)**	0
Other movements in cost or valuation	732	(329)	0	353	0	1,294	(3,016)	**(966)**	0
At 31 March 2020	200,025	555,040	22,299	543,270	2,961	2,725	12,863	**1,339,183**	143,605
Depreciation and Impairments									
At 1 April 2019	**(136)**	**(30,243)**	**(6,803)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,418)**	**(9,650)**
Deprecation charge for 2019/20	(3,908)	(16,303)	(3,164)	(16,923)	(174)	(51)	0	**(40,523)**	(6,416)
Depreciation written out to the Revaluation Reserve	252	43,808	0	0	0	18	0	**44,078**	8,617

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,780	1,122	0	0	0	45	0	**4,947**	228
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**	0
Derecognition – disposals	0	1,446	24	0	0	0	0	**1,470**	0
Derecognition – other	12	90	944	0	616	80	0	**1,742**	535
Other movements in depreciation and impairment	0	80	0	0	0	(80)	0	**0**	0
At 31 March 2020	**0**	**0**	**(8,999)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,704)**	**(6,686)**
NBV at 31 March 2020	**200,025**	**555,040**	**13,300**	**353,577**	**1,955**	**1,719**	**12,863**	**1,138,479**	**136,919**
NBV at 31 March 2019	**196,631**	**496,069**	**13,080**	**352,722**	**2,130**	**1,097**	**7,525**	**1,069,254**	**127,529**

The comparative movements in 2018/19 were as detailed below:

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2018	**193,735**	**578,293**	**18,120**	**507,329**	**3,573**	**2,311**	**5,334**	**1,308,695**	**135,823**
Additions	4,683	4,672	3,368	17,843	5	0	5,153	**35,724**	2,087
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(46)	22,076	0	0	0	159	0	**22,189**	2,765
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(297)	(4,227)	0	0	0	0	0	**(4,524)**	0
Derecognition – disposals	(1,483)	(76,337)	(393)	0	0	0	0	**(78,213)**	0

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Derecognition – other	0	(1,326)	(1,212)	0	0	(3)	0	**(2,541)**	(467)
Assets reclassified (to)/from Held for Sale	13	598	0	0	0	(162)	0	**449**	0
Other movements in cost or valuation	162	2,563	0	320	0	(190)	(2,962)	**(107)**	(3,029)
At 31 March 2019	**196,767**	**526,312**	**19,883**	**525,492**	**3,578**	**2,115**	**7,525**	**1,281,672**	**137,179**
Depreciation and Impairments									
At 1 April 2018	**0**	**(38,946)**	**(5,348)**	**(157,495)**	**(1,273)**	**(1,018)**	**0**	**(204,080)**	**(17,159)**
Depreciation charge for 2018/19	(3,943)	(15,922)	(2,861)	(15,275)	(175)	(6)	0	**(38,182)**	(6,207)
Depreciation written out to the Revaluation Reserve	0	17,241	0	0	0	0	0	**17,241**	10,229
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,807	35	0	0	0	0	0	**3,842**	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(119)	0	0	0	0	0	**(119)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	1,373	0	0	0	0	0	**1,373**	0
Derecognition – disposals	0	4,176	204	0	0	0	0	**4,380**	0
Derecognition – other	0	49	1,202	0	0	3	0	**1,254**	458
Other movements in depreciation and impairment	0	1,870	0	0	0	3	0	**1,873**	3,029
At 31 March 2019	**(136)**	**(30,243)**	**(6,803)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,418)**	**(9,650)**
NBV at 31 March 2019	**196,631**	**496,069**	**13,080**	**352,722**	**2,130**	**1,097**	**7,525**	**1,069,254**	**127,529**
NBV at 31 March 2018	**193,735**	**539,347**	**12,772**	**349,834**	**2,300**	**1,293**	**5,334**	**1,104,615**	**118,664**

Local Authority Maintained Schools

Included in the above balances for other land and buildings are all or a significant part of 6 primary schools for which plans are being finalised with the Diocese or for which instructions have been issued, but full ownership has not yet transferred to the Diocese. This detailed work is necessary because in many circumstances the schools are now physically different and it is necessary to ensure that the transfers relate purely to the school function and no other uses which may now be on site. There is a legal obligation to transfer ownership under Education legislation (Education Act 1946 or Schools Standards and Framework 1998).

Work commenced on the first transfers in 2008/09, and further schools were identified in 2011/12, mainly as a result of Primary School Amalgamations, which resulted in the change of the category of a number of schools. These schools will be removed from the Council's balance sheet on completion of the legal transfer. The total net book value for these schools still included as at the balance sheet date is £18.85m.

In addition there are a number of primary schools where a small part of the site is required to transfer from the Council to the Diocese, these are mainly as a result of extensions to schools which have been built across land still in Shropshire Council ownership (e.g. former playing field land). Work is ongoing to legally transfer these further sections and they are not included in the Council's balance sheet.

Academy Schools

In 2019/20 four further schools became Academies, of which three were in the ownership or part ownership of the Council. Where the School land and premises are in the freehold ownership of the Council, these are now leased by the Council to the Academy school on a 125 year peppercorn rent. Where they relate to Schools that should have transferred to the Diocese, this transfer is completed prior to Academy conversion. On this basis the schools is now listed in the Council's fixed asset register at nil value. The value written out of the Council balance sheet in 2019/20 for schools transferring was £16.40m.

At balance sheet date, Department of Education approval had been granted to two schools to convert to Academy status. One of which has converted to Academy School status in early 2020/21 financial year, this school was in part Council freehold ownership, included in the 6 Schools above to transfer to Diocese ownership and this transfer was completed prior to the School converting to Academy. The value of the school and associated facilities in the 2019/20 accounts is £3.85m. This is considered as a non-adjusting event after the reporting date.

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council Dwelling – componentised depreciation basis, using the Planned Programme Approach. The components are depreciated on a straightline basis over their useful life (10-0 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.
- Other Land and Buildings – average 10 to 60 years range.
- Vehicles, Plant, Furniture & Equipment – average 5 years.
- Infrastructure – 5 to 40 years.

Capital Commitments

At 31 March 2020, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment or to provide grant funding to other bodies for a capital purpose in 2020/21 and future years budgeted to cost £20.817m. Similar commitments at 31 March 2019 were £30.316m. The major commitments were:

- Rural Broadband - £3.938m.
- Highways & Transport schemes - £14.350m.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years but are subject to an annual desktop review. All valuations are undertaken by the authority's internal Estates department for General Fund assest and Valuation Office Agency for HRA assets. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Vehicles, plant, furniture and equipment are held on historic cost basis. The significant assumptions applied in estimating the fair values are:

- That the property is free from any undisclosed onerous burdens, outgoings or restrictions and that good title can be shown.
- That the land and property is not contaminated (including Radon Gas).
- The property and its values are unaffected by any matters which could be revealed by local search or inspection of any register and that the use and occupation of the asset are lawful.
- In valuing the property, plant and machinery have been excluded unless forming part of the structure and normally valued with the building.
- The report does not take account of any liability for taxation which may arise on disposal whether actual or notional, e.g. Capital Gains Tax, or transaction costs, e.g. Stamp Duty.
- Details concerning "title" have been taken from the Council's Terrier.
- Where there are user rights these have not been considered as having a value because of the inability to transfer such rights.
- In providing Fair Value (Market Value) valuation assumptions have been made as to what is the "highest and best" use of the asset.
- The property has not been discussed with the Planning Authorities and therefore certain assumptions in respect of planning issues have been made in determining values. The assumptions made are based on information on file available to the Valuer when undertaking the Valuation.
- The remaining useful life of each asset has been estimated, these estimates are subject to ongoing planned maintenance programme.

Valuations of Non-Current Assets carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment. The valuations are carried out by the Council's internal valuation unit or commissioned from External Valuers. The basis of valuation is set out in the Statement of Accounting Policies. All values are stated on a net present value basis.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at Historical Cost	0	0	13,300	0	13,300
Valued at Fair Value as at:					
31-Mar-20	200,025	555,040	0	1,719	756,784
Total Cost or Valuation	**200,025**	**555,040**	**13,300**	**1,719**	**770,084**

All assets were subject to a Full or Desktop Valuations as at 31/03/20 to ensure the carrying amount reflected Fair Value as at the balance sheet date.

In order to perform this exercise the other land and building category was split into the sub-categories with the relevant values detailed in the table below:

	2019/20 £000	2018/19 £000
Schools, Children's Services and other Education Facilities	124,392	120,588
Culture & Heritage Buildings	80,495	69,728
Leisure & Recreation	63,509	60,492
Highways & Car Parks	69,233	48,316
Social Services	43,236	36,816
Administrative Offices	21,994	18,255
Waste Management Site	112,102	104,839
Business / Commercial Sites (including Markets)	17,565	15,072
Housing Services (including Gypsy Sites)	11,563	10,657
Smallholdings	9,125	8,924
Other	1,826	2,382
Total	**555,040**	**496,069**

16. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2019/20 £000	2018/19 £000
Rental income & service charges from investment property	(1,316)	(1,393)
Direct operating expenses arising from investment property	350	419
Net (gain)/loss	**(966)**	**(974)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	Long term		Current	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Balance at start of the year	50,884	54,845	3,822	0
Additions:				
- Purchases	1,975	0	0	0
- Subsequent expenditure	24	48	0	0
Disposals	(25)	(48)	(3,822)	0
Net gains/(losses) from fair value adjustments	(2,456)	2,861	(1,135)	0
Transfers:				
- To/(from) Property, Plant and Equipment	(875)	(3,000)	0	0
- To/(from) Current/Long term	(1,875)	(3,822)	1,875	3,822
Balance at end of the year	**47,652**	**50,884**	**740**	**3,822**

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2020 are as follows:

2019/20 Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2020 £000
Residential (market rental) properties	0	5,621	0	5,621
Land	0	33,502	0	33,502
Commercial units	0	9,269	0	9,269
Total	**0**	**48,392**	**0**	**48,392**

2018/19 comparatives Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2019 £000
Residential (market rental) properties	0	7,397	0	7,397
Land	0	38,426	0	38,426
Commercial units	4,662	4,221	0	8,883
Total	**4,662**	**50,044**	**0**	**54,706**

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The market approach and the income approach have been used as the valuation techniques to measure the fair value of Investment Properties.

The fair value of properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The Income approach has been used mainly in relation to Investment Properties leased on a commercial basis. The income approach is calculated by means of the discounted cash flow method, where the expected cash flows from the properties are discounted to establish the present value of the net income stream. This approach is based on the authorities lease data and data on the local rental market.

Highest and Best Use of Investment Properties

In estimating the fair value of the authority’s Investment Properties, the valuations have been on the basis of the highest and best use of the asset. In a small number of instances this differs to their current use, mainly where sites would have a higher value if use for residential development, and it is expected planning permission for these sites would be granted based on existing planning policy. The authority is actively working to bring these sites forward for development, but this process can take a number of years.

Valuation Process for Investment Properties

The fair value of the authority’s investment properties are subject to revaluations in accordance with the authority’s policy on revaluing non-current assets, undertaken by the authority’s internal Estates Department for General Fund assets and Valuation Office Agency for HRA assets. As Investment Properties are valued on a market value basis and hence more volatile to changes in valuation, they are also subject to annual desktop review, to ensure the valuation reflects current value at the balance sheet date.

17. LONG TERM UNQUOTED EQUITY INVESTMENT

The Council held the following unquoted equity investments:

	2019/20 £000	2018/19 £000
Balance at start of the year	40,520	52,205
Purchases		
Shrewsbury Retail Unit Trusts	2,856	181
Disposals		
Shrewsbury Retail Unit Trusts	(64)	(390)
Revaluation		
Shrewsbury Retail Unit Trusts	(23,506)	(11,476)
Balance at 31 March	**19,806**	**40,520**

All of the units in the trusts were previously owned by Standard Life Aberdeen and were sold to the Council on the 24th January 2018. The trust is a registered trust in Jersey and is regulated by the Jersey financial services authority and is also approved by the UK Government as a "Baker trust" for tax purposes.

In order to comply with the rules of the trust a percentage of the units are held by the Council directly and the remaining units are held by SSC NO.1 LTD, a wholly owned subsidiary of the Council.

The trusts are independently controlled by professional trustees who are based in Jersey. They appoint managing agents, collect rents, pay costs and run the trust in the best interests of the unit holders. The trust deed confirms the ability of the Council to remove the trustees and also has the power to remove the majority or all of the investee's board and therefore has power over the trustee. For this reason the trust will be consolidated into the Council's financial statements.

In accordance with the trust deeds income and expenditure accrues to the unitholders as it arises and this is recognised in the Council's financial statements. The investment was revalued as at 31st March 2020 and the resulting revaluation loss has been recognised in the Council's financial statements.

The wholly owned subsidiary SSC NO.1 LTD is a company incorporated in England and Wales and was incorporated on the 19th January 2018. It has been consolidated in the group accounts. Its issued share capital at the 31st March 2020 was £1, it holds £0.019m in cash and owes the Council £0.574m being the initial value of their share of the total trust assets and additional subscriptions.

18. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2019/20 £000	2018/19 £000
Opening Capital Financing Requirement (including PFI & Finance Lease)	**474,213**	**476,516**
Capital investment		
Property, Plant and Equipment	40,440	35,772
Investment Properties	1,999	0
Long Term Investment	2,792	(208)
Intangible Assets	2,841	3,494
Revenue Expenditure Funded from Capital under Statute	18,561	15,958
Capital Loans	750	0
Sources of finance		
Capital receipts	(5,135)	(3,094)
Capital grants and other contributions	(40,756)	(41,100)
Direct Revenue Financing (Including MRA)	(8,662)	(6,975)
Minimum Revenue Provision	(6,990)	(6,150)

	2019/20 £000	2018/19 £000
Closing Capital Financing Requirement (including PFI & Finance Lease)	**480,053**	**474,213**
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund	293,721	286,214
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA	84,805	84,805
Closing Capital Financing Requirement – PFI & Finance Lease	101,527	103,194
	480,053	**474,213**
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	(2,441)	(2,491)
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	9,947	2,129
Assets acquired under finance leases	0	0
Assets acquired under PFI contracts	(1,666)	(1,942)
Increase/(decrease) in Capital Financing Requirement	**5,840**	**(2,304)**

19. PRIVATE FINANCE INITIATIVE SCHEMES

The Council has two Private Finance Initiative (PFI) schemes: The Quality in Community Services (QICS) PFI, signed on 21 May 2005, and the Waste Services PFI contract, signed on 29 September 2007.

a. The Quality in Community Services PFI Project

On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings:

- Three Resource Centres
- A Nursing Home
- A Joint Service Centre
- An Intermediate Care Hub

The contract was a Private Finance Initiative under the Capital Finance Regulations. The Council was awarded a PFI credit of £20.400m.

b. The Waste Services PFI Project

On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years.

The contract is a Private Finance Initiative (PFI) contract and is part funded by £40.800m of PFI credits which are paid as an annual PFI grant.

There are two separable elements to the contract: a collection and recycling element and a waste treatment services element.

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

The value of assets held and liabilities resulting from the QICS and Waste PFI contract at each balance sheet date since the commencement of the contract and an analysis of the movements are shown below:

	QICS PFI		Waste PFI	
	Year Ended 31/03/20 £000	Year Ended 31/03/19 £000	Year Ended 31/03/20 £000	Year Ended 31/03/19 £000
Non-Current Assets – Land & Buildings				
Balance Brought Forward	16,581	16,934	101,549	92,464
- Depreciation in Period	(353)	(353)	(3,909)	(3,909)
- Additions	0	0	57	0
- Revaluation/Impairment	3,069	0	11,011	12,994
- Derecognition	0	0	(57)	0
Balance Carried Forward	19,297	16,581	108,651	101,549
Non-Current Assets – Vehicles, Plant & Equipment				
Balance Brought Forward	0	0	9,398	9,266
- Depreciation in Period	0	0	(2,154)	(1,945)
- Additions	0	0	2,246	2,087
- Derecognition	0	0	(519)	(10)
Balance Carried Forward	0	0	8,971	9,398
Prepayments				
Balance Brought Forward	0	0	9,212	9,385
- Planned Capital Expenditure	0	0	(173)	(173)
Balance Carried Forward	0	0	9,039	9,212
Finance Lease Liability				
Balance Brought Forward	(12,046)	(12,329)	(100,360)	(102,192)
- Additions	0	0	0	0
- Early Lifecycle	0	0	(199)	0
- Repayment of Principal	309	283	1,026	1,832
Balance Carried Forward	(11,737)	(12,046)	(99,533)	(100,360)

Details of Payments due to be made under PFI contracts

Year	Service Charges * £000	Principal £000	Interest # £000	Total Unitary Charge Payment £000
Amounts Falling Due Within One Year	19,811	4,356	12,108	36,275
Amounts Falling Due Within 2 – 5 Years	99,393	18,793	42,137	160,323
Amounts Falling Due Within 6 – 10 Years	134,278	23,763	51,168	209,209
Amounts Falling Due Within 11 – 15 Years	164,684	31,958	38,361	235,003
Amounts Falling Due Within 16 – 20 Years	132,443	38,174	26,783	197,400
Amounts Falling Due Within 21 – 25 Years	0	0	0	0

* comprised of operating costs and lifecycle costs
# comprised of finance lease interest and contingent rental

20. LEASES

Authority as a Lessee

<u>Finance Leases</u>

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. The Council pays an annual unitary charge (in monthly instalments) to the contractor for the assets and services provided under each PFI contract. This annual unitary charge is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

The assets acquired under these leases are carried as Buildings and Vehicles, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2020 £000	31 March 2019 £000
Buildings	127,947	118,130
Vehicles, Plant and Equipment (PFI)	8,972	9,398
Total	**136,919**	**127,528**

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2020 £000	31 March 2019 £000
Finance lease liabilities (NPV of minimum lease payments)	117,045	118,179
Finance costs payable in future years	170,557	182,042
Minimum lease payments	**287,602**	**300,221**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000
Not later than one year	16,465	16,326	4,356	4,551
Later than one year and not later than five years	60,930	59,190	18,793	16,523
Later than five years	210,207	224,705	93,896	97,105
Total	**287,602**	**300,221**	**117,045**	**118,179**

The finance lease liabilities recognised on the balance sheet as “Deferred Liabilities” totals £111.271m. The analysis of the deferred liability is detailed below. Further details of the QICS and Waste PFI lease values are detailed in Note 19 Private Finance Initiative Schemes.

	QICS £000	Waste £000	Total £000
Lease liability (due within 1 year)	339	4,017	4,356
Lease liability (due after 1 year)	11,398	95,516	106,914
Total	**11,737**	**99,533**	**111,270**

<u>Operating Leases</u>

The Council has acquired vehicles and equipment by entering into operating leases, with typical lease lengths of three to seven years. The Council also has a number of land and buildings that are held under operating leases.

The minimum lease payments due for the following financial year under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2020 £000	31 March 2019 £000
Expiring not later than one year	329	282
Expiring later than one year and not later than five years	115	425
Expiring later than five years	445	366
Total	**889**	**1,073**

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2020 £000	31 March 2019 £000
Lease payments	1,149	1,221
Sub Lease receivable	0	0
Total	**1,149**	**1,221**

Authority as Lessor

<u>Operating Leases</u>
The Council leases out property under operating leases for a variety of purposes, including:

- For the provision of community services.
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- For income generation as Investment Properties.

The minimum lease payments due under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2020 £000	31 March 2019 £000
Expiring not later than one year	1,034	1,268
Expiring later than one year and not later than five years	501	445
Expiring later than five years	941	1,021
Total	**2,476**	**2,734**

As a result of the impact of Covid-19 a number of tenants applied to defer their payments for a 3 month period covering April, May and June. The sum deferred is due to be collected over a 12 month period commencing July 2020 alongside the usual payments due for that period.

21. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

Financial Assets	Long term				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31-Mar-20 £000	31-Mar-19 £000	31-Mar-20 £000	31-Mar-19 £000	31-Mar-20 £000	31-Mar-19 £000	31-Mar-20 £000	31-Mar-19 £000	31-Mar-20 £000	31-Mar-19 £000
Fair value through profit or loss										
Long Term Equity Instruments	19,806	40,520	0	0	0	0	0	0	19,806	40,520
Amortised cost										
Investment	400	400	19,857	19,564	64,500	64,910	44,958	29,330	129,715	114,204
Cash and Cash Equivalents	0	0	0	0	92,560	63,710	0	0	92,560	63,710
Total financial assets	**20,206**	**40,920**	**19,857**	**19,564**	**157,060**	**128,620**	**44,958**	**29,330**	**242,081**	**218,434**
Non-financial assets	0	0	0	0	0	0	22,415	26,613	22,415	26,613
Total	**20,206**	**40,920**	**19,857**	**19,564**	**157,060**	**128,620**	**67,373**	**55,943**	**264,496**	**245,047**

Financial Liabilities	Long term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost										
Principal	(303,568)	(307,568)	(649)	(661)	(4,026)	(8,866)	(81,583)	(57,297)	(389,826)	(374,392)
Loans accrued interest	0	0	0	0	(1,987)	(2,007)	0	0	(1,987)	(2,007)
Bank Overdraft	0	0	0	0	0	0	(14,644)	(7,005)	(14,644)	(7,005)
PFI and Finance lease liabilities	(106,914)	(112,406)	*0*	0	*0*	0	(4,356)	0	(111,270)	(112,406)
Total Financial Liabilities	**(410,482)**	**(419,974)**	**(649)**	**(661)**	**(6,013)**	**(10,873)**	**(100,583)**	**(64,302)**	**(517,727)**	**(495,810)**
Non financial liabilities	0	0	0	0	0	0	(21,052)	(19,104)	(21,052)	(19,104)
Total	**(410,482)**	**(419,974)**	**(649)**	**(661)**	**(6,013)**	**(10,873)**	**(121,635)**	**(83,406)**	**(538,779)**	**(514,914)**

The debtors figure included in the balance sheet includes payments in advance from individuals and organisations and transactions relating to Council Tax and Business Rates which are not considered to be financial instruments, therefore these prepayments have been excluded above. Similarly the creditors figure also includes transactions relating to Council Tax and Business Rates and receipts in advance which are not a financial instrument, therefore these have been excluded above. A reconciliation of the Financial Instrument figures to the Balance Sheet is provided below:

	31-Mar-20	31-Mar-19
	£000	£000
Debtors:		
Financial assets carried at contract amounts as per Financial Instruments	44,958	29,330
Debtors that are not financial instruments	22,415	26,613
Total Debtors as per Balance Sheet	**67,373**	**55,943**
Creditors:		
Financial liabilities carried at contract amount as per Financial Instruments	(85,939)	(57,297)
Creditors that are not financial instruments	(21,052)	(19,104)
Total Creditors as per Balance Sheet	**(106,991)**	**(76,401)**

<u>Soft Loans</u>

Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT Ltd to be used to provide small business loans. As at the balance sheet date a total of £0.750m has been loaned to MRRT Ltd.

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is based on the PWLB rate at point at which the loan payment is made to MRRT Ltd plus 0.5% for the Council's transactional costs.

Other Soft Loans

Following a review in this area it has been identified that interest free loans with a nominal value of £1.961m are advanced to clients receiving residential/nursing care, who following assessment, are required to pay the full cost of their care. As all of the clients funds are tied up in the property they own, a legal charge is made against the property and when the property is sold the outstanding debts are cleared and the legal charge removed.

In addition, clients who are required to make adaptations to their homes to maintain their independence are also given interest free loans, the nominal value of these loans is £0.299m. A legal charge is again placed against the property and when the property is sold the amount of the loan is repaid and the legal charge removed.

The deferred charges loans are part of the Charging Residential Accommodation Guide (CRAG) assessment and the adaptation loans are part of Disabled Facilities Grant legislation, which means they are part of national agreements. These loans are not part of the Councils internal policies and therefore are not classified as soft loans.

Income, Expense, Gains and Losses

	2019/20		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net gains/losses on:				
Financial assets measured at fair value through profit or loss	(23,506)	0	(11,476)	0
Financial assets measured at amortised cost	0	0	0	0
Investments in equity instruments designated at fair value through other comprehensive income	0	0	0	0
Financial assets measured at fair value through profit or loss	0	0	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Financial liabilities measured at amortised cost	0	0	0	0
Total net gains/losses	**(23,506)**	**0**	**(11,476)**	**0**
Interest revenue:				
Financial assets measured at amortised cost	(2,129)	0	(1,920)	0
Other financial assets measured at fair value through other comprehensive income	0	0	0	0
Total interest revenue	**(2,129)**	**0**	**(1,920)**	**0**

	2019/20		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Interest expense				
Interest Expense	25,916	0	26,003	0

The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carried at fair value, all other financial liabilities and financial assets held by the Council are carried in the Balance Sheets at amortised cost. The fair values calculated are as follows.

Financial Liabilities	31 March 2020 Carrying amount £000	Fair value £000	31 March 2019 Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost				
- Loans/Borrowings	307,568	405,490	311,568	424,658
- PFI and finance lease liabilities	111,271	224,610	112,406	218,834

The fair value of borrowings is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2020 Carrying amount £000	Fair value £000	31 March 2019 Carrying amount £000	Fair value £000
Financial assets held at amortised cost				
Loans and receivables:				
Cash	35,500	35,514	35,500	35,500
Fixed Term Deposits	104,500	104,979	83,000	83,376
Money Market Funds	17,060	17,071	8,210	8,210
Short term investments	0	0	1,910	1,910
Long term debtors	19,857	19,857	19,564	19,564
Long term investments	20,206	20,206	43,820	43,820

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2020) attributable to the commitment to receive interest above current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31-Mar-20			
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets(Level 1) £000**	**Other significant observable inputs (Level 2) £000**	**Significant unobservable inputs (Level 3) £000**	**Total £000**
Financial liabilities				
Financial liabilities held at amortised cost:				
Loans/borrowings	0	405,490	0	405,490
PFI and finance lease liabilities	0	224,610	0	224,610
Total	**0**	**630,100**	**0**	**630,100**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	750	750
Other loans and receivables	0	157,564	0	157,564
Total	**0**	**157,564**	**750**	**158,314**

	31-Mar-19 Comparative Year			
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1) £000**	**Other significant observable inputs (Level 2) £000**	**Significant unobservable inputs (Level 3) £000**	**Total £000**
Financial liabilities				
Financial liabilities held at amortised cost:				
Long term creditors	0	424,658	0	424,658
PFI and finance lease liabilities	0	218,834	0	218,834
Total	**0**	**643,492**	**0**	**643,492**
Financial assets				
Loans and receivables:				
Soft loans to third parties	0	0	750	750
Other loans and receivables	0	127,086	0	127,086
Total	**0**	**127,086**	**750**	**127,836**

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

Financial Assets	Financial Liabilities
No early repayment or impairment is recognised	No early repayment is recognised
Estimated ranges of interest rates at 31 March 2020 of 0.08% to 0.52% for loans receivable, based on new lending rates for equivalent loans at that date	Estimated ranges of interest rates at 31 March 2020 of 1.9% to 2.65% for loans payable, based on new lending rates for equivalent loans at that date
The fair value of trade and other receivables is taken to be the invoiced or billed amount	

22. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses;
- By approving annually in advance prudential and treasury indicators for the following three years;
- By approving an investment strategy for the forthcoming year.

To avoid the Council suffering loss as a result of its treasury management activities a number of risk management procedures have been put in place.

These procedures are based on the concept that firstly security of principal is paramount, secondly that there is a need to maintain liquidity and finally earning a rate of return commensurate with the first two concepts.

Credit Risk Exposure

Credit and counterparty risk is the failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness.

As a holder of public funds, Shropshire Council regards it a prime objective of its treasury management activities to be the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Council ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Council's creditworthiness policy which is approved as part of the Annual Investment Strategy. The Council's lending list is reviewed continuously in conjunction with its treasury advisor and formally updated monthly. Additions to, and deletions from, the list are approved by the Section 151 Officer.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rating the maximum amount is currently limited to £20.000m.

The analysis below summarises the Council's potential maximum exposure to credit risk, based on the experience of default, adjusted to reflect current market conditions.

	Amount deposited at 31 March 2020	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2020	Estimated maximum exposure to default and uncollectability at 31 March 2020	Estimated maximum exposure at 31 March 2020
	£000	%	%	%	£000
	A	B	C	(AxC)	
Loans and receivables held with counterparties having a default rating of:					
AAA	17,060	0.00	0.00	0.00	0.00
AA	40,000	0.02	0.00	0.00	0.00
A	47,500	0.05	0.09	0.00	0.00
BBB	0	0.16	0.00	0.00	0.00
Other Local Authorities	52,500	0.00	0.00	0.00	0.00
Debtors (Customers)	24,321	Local Experience	Local Experience	Local Experience	Local Experience

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council generally allows its customers 30 days credit. Of the £24.321m outstanding from customers £17.101m is past its due date for payment. This amount past due date is analysed by age as follows:

Age of Debt	2019/20 £000	2018/19 £000
Less than 3 months overdue	4,584	2,675
3 to 6 months overdue	2,262	1,563
6 months to 1 year overdue	2,679	2,353
More than 1 year overdue	7,576	5,155
	17,101	**11,746**

Liquidity Risk Exposure

Liquidity risk is the risk that cash is not available when required. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council therefore has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected circumstances.

As the Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board and money markets for access to longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. The

Council's strategy therefore is to ensure that no more than 15% of loans mature in any one financial year.

In addition, all of the Council's short term liquidity requirements can be satisfied through short term borrowing and bank overdraft facilities.

The maturity analysis of financial liabilities is as follows:

Age of Debt	2019/20 £000	2018/19 £000
Less than 1 year	4,000	4,000
Between 1 and 2 years	12,000	16,000
Between 2 and 5 years	6,600	6,100
Between 5 and 10 years	28,487	13,500
More than ten years	256,481	271,968
	307,568	311,568

Interest Rate Risk

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council minimises this risk by seeking expert advice on forecasts on interest rates from its Treasury Management consultants, and agreeing with them the strategy for the forthcoming year for the investment and debt portfolios. Movement of actual interest rates against these expectations is monitored continuously with advice from our treasury advisor.

The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. Interest rate exposure limits and other prudential limits are set through this Strategy. The limit for variable rate debt is 50% of the total debt portfolio however the Council works to a more prudent level and maximises its exposure to 25%. As borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

As at 31 March 2020 the Council's total outstanding debt (excluding accrued interest) amounted to £307.594m of which none of these loans were at stepped interest rates. Out of this balance £258.368m relates to fixed rate Public Works Loan Board (PWLB) loans, £32.200m relates to Lenders Option Borrower Option (LOBO) market loans, £17.000m relates to Market Loans and £0.026m relates to temporary loans for voluntary groups. As the LOBO loans have a call option where the lender can increase the rate of the loan at predetermined dates these loans are classified as variable rate loans. If the lender increases the interest rate on the LOBO loans at the predetermined date then the Council has the option to repay the loan in full thereby offering the potential for the Council to avoid this increase in interest payable.

The majority of the Council's investments are fixed rate deposits however, investments in Call Accounts are classified as variable rate investments. As at the end of March 2020, £37.060m was held in a Call Account.

Price Risk

The Council, excluding the pension fund, does not invest in equity shares or bonds, therefore is not exposed to losses arising from movements in share/bond prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies therefore the exposure to loss arising from movements in exchange rates is zero.

23. DEBTORS

These are sums of money due to the Council but unpaid at 31 March 2020.

	2019/20 £000	2018/19 £000
Debtors:		
Central Government Bodies	12,001	7,627
Other Local Authorities	4,455	1,702
NHS Bodies	5,060	5,461
Public Corporations and Trading Funds	0	2
Other Entities and Individuals	29,745	26,462
Prepayments	16,112	14,689
	67,373	**55,943**

24. DEBTORS FOR LOCAL TAXATION

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	2019/20 £000	2018/19 £000
Less than 1 year	4,584	4,176
1 – 2 years	2,204	1,740
2 – 3 years	1,333	1,255
More than 3 years	5,406	4,753
	13,527	**11,924**

25. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2020 £000	31 March 2019 £000
Bank current accounts	37,585	28,730
Short term deposits with building societies	55,422	35,330
Total Cash and Cash Equivalents	**93,007**	**64,060**
Bank Overdraft	(14,644)	(7,005)
Cash Overdrawn	**(14,644)**	**(7,005)**

26. CREDITORS

These are amounts owed by the Council for work done, goods received or services rendered which had not been paid by 31 March 2020.

	2019/20 £000	2018/19 £000
Creditors:		
Central Government Bodies	(12,551)	(9,558)
Other Local Authorities	(1,348)	(1,166)
NHS Bodies	(358)	(149)
Public Corporations and Trading Funds	0	0
Other Entities and Individuals	(83,727)	(56,482)
Receipts In Advance	(9,007)	(9,046)
	(106,991)	**(76,401)**

27. PROVISIONS

The value of provisions held as at 31 March 2020 are as follows:

	Balance at 31 March 2018 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31 March 2020 £000
Short Term Provisions							
Accumulated Absences Account	2,608	(2,608)	1,887	1,887	(1,887)	2,328	2,328
Environmental Maintenance Provision	578	(468)	7	117	(117)	0	0
Rent Top Up Provision	267	(265)	161	163	(166)	38	35
Highways & Transport Provision	0	0	0	0	0	834	834
Cultural Provision	0	0	0	0	0	191	191
Termination Benefits	0	0	0	0	0	188	188
Total Short Term Provisions	**3,453**	**(3,341)**	**2,055**	**2,167**	**(2,170)**	**3,579**	**3,576**
Long Term Provisions							
AWM	224	0	0	224	0	0	224
S106	73	0	0	73	0	0	73
Rent Top Up Provision	168	(166)	0	2	(2)	0	0
Liability Insurance	3,824	(8)	186	4,002	(23)	234	4,213
NDR Appeals	3,536	(3,616)	5,857	5,777	(981)	1,594	6,390
Tenancy Deposit Clawbacks	145	(8)	29	166	(13)	26	179
Total Long Term Provisions	**7,970**	**(3,798)**	**6,072**	**10,244**	**(1,019)**	**1,854**	**11,079**
Total Provisions	**11,423**	**(7,139)**	**8,127**	**12,411**	**(3,189)**	**5,433**	**14,655**

28. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

	31 March 2020 £000	31 March 2019 £000
Usable Capital Receipts Reserve	0	0
Major Repairs Reserve	4,492	4,240
Earmarked Reserves	67,993	71,726
Capital Grants Unapplied Account	41,985	34,398
HRA Balance	10,141	9,814
General Fund Balance	13,510	15,536
Total Usable Reserves	**138,121**	**135,714**

29. UNUSABLE RESERVES

	31 March 2020 £000	31 March 2019 £000
Revaluation Reserve	245,600	164,812
Capital Adjustment Account	513,890	553,330
Financial Instruments Adjustment Account	(3,998)	(4,317)
Deferred Capital Receipts Reserve	2,149	661
Pensions Reserve	(495,700)	(497,935)
Collection Fund Adjustment Account	3,503	3,091
Accumulated Absences Account	(2,328)	(1,887)
Total Unusable Reserves	**263,116**	**217,756**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2019/20 £000	2018/19 £000
Balance at 1 April	**164,812**	**155,077**
Upward revaluation of assets	97,077	40,416
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(4,312)	(1,104)

	2019/20 £000	2018/19 £000
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**92,765**	**39,312**
Difference between fair value depreciation and historical depreciation	(7,004)	(6,404)
Accumulated gains on assets sold or scrapped	(4,973)	(23,173)
Other transfers to the Capital Adjustment Account	0	0
Amount written off to the Capital Adjustment Account	**(11,977)**	**(29,577)**
Balance at 31 March	**245,600**	**164,812**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the authority.

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2019/20 £000	2018/19 £000
Balance at 1 April	**553,330**	**606,309**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	(40,593)	(36,886)
- Revaluation losses on Property, Plant and Equipment	138	(700)
- Revaluation loss on Long Term Investment	(23,506)	(11,476)
- Amortisation of intangible assets	(1,362)	(717)
- Revenue expenditure funded from capital under statute	(18,561)	(15,958)
- Amounts of non current assets written off on disposal or sale as part of the gain/loss of disposal to the Comprehensive Income and Expenditure Statement	(25,485)	(76,998)
	(109,369)	**(142,735)**
Adjusting amounts written out of the Revaluation Reserve	**11,977**	**29,577**

	2019/20 £000	2018/19 £000
Net written out amount of the cost of non current assets consumed in the year	**(97,392)**	**(113,158)**
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	5,135	3,094
- Use of the Major Repairs Reserve to finance new capital expenditure	3,700	4,253
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	34,115	39,009
- Application of grants to capital financing from the Capital Grants Unapplied Account	6,641	2,091
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,990	6,150
- Capital expenditure charged against the General Fund and HRA balances	4,962	2,722
	61,543	**57,319**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**(3,591)**	**2,860**
Balance at 31 March	**513,890**	**553,330**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2019/20 £000	2018/19 £000
Balance at 1 April	**(4,317)**	**(4,638)**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements.	315	315
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	4	6
Balance at 31 March	**(3,998)**	**(4,317)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2019/20 £000	2018/19 £000
Balance at 1 April	**661**	**687**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,529	0
Transfer to the Capital Receipts Reserve upon receipt of cash	(41)	(26)
Balance at 31 March	**2,149**	**661**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20 £000	2018/19 £000
Balance at 1 April	**(497,935)**	**(434,324)**
Remeasurements of the net defined benefit liability/(asset)	28,057	(56,992)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(49,202)	(29,523)
Employer's pension contributions and direct payments to pensioners payable in the year	23,380	22,904
Balance at 31 March	**(495,700)**	**(497,935)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2019/20 £000	2018/19 £000
Balance at 1 April	**3,091**	**(288)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	412	3,379
Balance at 31 March	**3,503**	**3,091**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2019/20 £000	2018/19 £000
Balance at 1 April	**(1,887)**	**(2,609)**
Settlement or cancellation of accrual made at the end of the preceding year	1,887	2,609
Amounts accrued at the end of the current year	(2,328)	(1,887)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(441)**	**722**
Balance at 31 March	**(2,328)**	**(1,887)**

30. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2019/20 £000	2018/19 £000
Interest received	(2,249)	(1,641)
Interest paid	25,940	25,998
Dividends received	0	(14)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements.

	2019/20 £000	2018/19 £000
Depreciation	40,593	36,886
Impairment and downward valuations	(138)	700
Amortisation	1,362	717
Impairment losses on Investments debited to surplus or deficit on the provision of services in year	23,506	11,476
Increase/Decrease in Interest Creditors	(24)	5
Increase/Decrease in Creditors	34,353	(4,253)
Increase/Decrease in Interest and Dividend Debtors	121	(279)
Increase/Decrease in Debtors	(10,886)	6,447
Increase/Decrease in Inventories	130	(220)
Pension Liability	33,136	13,993
Contributions to/(from) Provisions	2,244	988
Carrying amount of non-current assets sold	24,819	76,356
Movement in Investment Property Values	3,591	(2,860)
	152,807	**139,956**

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

	2019/20 £000	2018/19 £000
Carrying amount of short and long term investment sold	523	(16,319)
Capital Grants credited to surplus or deficit on the provision of services	(48,343)	(54,072)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(7,293)	(3,690)
Non cash adjustments	**(55,113)**	**(74,081)**

31. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2019/20 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	48,698	32,117
Purchase of short term and long term investments	2,856	182
Other payments for investing activities	1,542	563
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(50)	(2,334)
Other receipts from investing activities*	(58,436)	(56,800)
Net cash flows from investing activities	**(5,390)**	**(26,272)**

* This includes capital grants received in year.

32. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2019/20 £000	2018/19 £000
Cash receipts of short and long-term borrowing	0	(4,840)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	1,334	1,601
Repayments of short and long term borrowing	8,852	6,411
Other payments for financing activities*	(1,466)	(4,042)
Net cash flows from financing activities	**8,720**	**(870)**

* Represents change in value of NNDR debtor/creditor

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2019/20 1 April	Financing cash flows	Non-cash changes Acquisition	Other non-cash changes	2019/20 31 March
	£000	£000	£000	£000	£000
Long-term borrowings	307,568	0	0	(4,000)	303,568
Short-term borrowings					
- Lease liabilities	10,873	(8,860)	0	4,000	6,013
- On balance sheet PFI liabilities	112,406	(1,335)	0	199	111,270
Total liabilities from financing activities	**430,847**	**(10,195)**	**0**	**199**	**420,851**

	2018/19 1 April £000	Financing cash flows £000	Non-cash changes Acquisition £000	Non-cash changes Other non-cash changes £000	2018/19 31 March £000
Long-term borrowings	311,568	0	0	(4,000)	307,568
Short-term borrowings					
- Lease liabilities	8,457	(1,584)	0	4,000	10,873
- On balance sheet PFI liabilities	114,521	(1,601)	0	(514)	112,406
Total liabilities from financing activities	**434,546**	**(3,185)**	**0**	**(514)**	**430,847**

34. TRADING OPERATIONS

The Council has a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units with a turnover of greater than £5m in 2019/20 are as follows:

		2019/20 £000	2019/20 £000	2018/19 £000	2018/19 £000
Shire Services operates as a trading organisation within the Council, delivering catering and cleaning services. Shire Services provides catering services to schools in Shropshire, Worcestershire, Herefordshire, Telford and North Wales, as well as to a range of non-school sites in Shropshire. Cleaning services are provided to schools and other Council premises in Shropshire, including the Area Headquarters.	Turnover	(16,171)		(15,239)	
	Expenditure	17,018		15,799	
	(Surplus)/ Deficit		**847**		**560**
The consolidated results of the other Council's trading units are:	Turnover	(38,284)		(38,024)	
	Expenditure	38,554		37,488	
	(Surplus)/ Deficit		**270**		**(536)**
Net Surplus on Trading Activities			**1,117**		**24**

35. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the council during the year.

	2019/20 £000	2018/19 £000
Basic Allowances	848	850
Special Responsibility Allowances	278	285
Expenses	43	59
Total	**1,169**	**1,194**

36. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

Post Holder Information (Post Title & Name)		Salary	Expense Allowances	Total excl. pension contributions	Employers Pension contributions	Total incl. pension contributions
Chief Executive – Clive Wright	2019/20	£153,000	£0	£153,000	£22,644	£175,644
	2018/19	£140,278	£0	£140,278	£20,761	£161,039
Acting Interim Chief Executive (started 25th February 2020)	2019/20	£1,993	£0	£1,993	£295	£2,288
Acting Interim Chief Executive (started 25th February 2020)	2019/20	£1,993	£0	£1,993	£295	£2,288
Executive Director of Adult Services ^	2019/20	£132,600	£0	£132,600	£19,625	£152,225
	2018/19	£116,474	£0	£116,474	£17,238	£133,712
Executive Director of Children's Services	2019/20	£131,706	£0	£131,706	£19,492	£151,198
	2018/19	£116,474	£0	£116,474	£17,238	£133,712
Director of Place & Enterprise (left post 29th April 2018)	2019/20	£0	£0	£0	£0	£0
	2018/19	£8,130	£0	£8,130	£1,203	£9,333
Executive Director of Place (started post 1st October 2018)	2019/20	£132,600	£0	£132,600	£0	£132,600
	2018/19	£65,000	£0	£65,000	£0	£65,000
Director of Public Health (left post 31st March 2019)	2019/20	£0	£0	£0	£0	£0
	2018/19	£104,489	£0	£104,489	£15,026	£119,515
Director of Legal and Democratic Services, Monitoring Officer	2019/20	£112,200	£0	£112,200	£16,606	£128,806
	2018/19	£105,597	£0	£105,597	£15,628	£121,225
Director of Finance, Governance & Assurance, S151 Officer°	2019/20	£112,200	£0	£112,200	£16,606	£128,806
	2018/19	£105,597	£0	£105,597	£15,628	£121,225
Director of Workforce & Transformation	2019/20	£112,200	£0	£112,200	£16,606	£128,806
	2018/19	£105,044	£0	£105,044	£15,547	£120,591

^ An element of the total remuneration paid to the Executive Director of Adult Services was recharged to Cornovii Ltd (£849) to reflect the role of Director in the company.

° An element of the total remuneration paid to the Director of Finance, Governance & Assurance is recharged to Shropshire County Pension Fund (£16,090), Shropshire & Wrekin Fire Authority (£16,010), West Mercia Energy (£9,980), and Marches LEP (£10,407) to reflect the various treasurer roles undertaken within those organisations.

The numbers of officers whose remuneration exceeded £50,000 is analysed into bands of £5,000 as follows. The remuneration disclosed below includes salary costs and expense allowances:

Salaried Remuneration Band £	2019/20 No. of Employees	2018/19^ No. of Employees
50,000 – 54,999	66	55
55,000 – 59,999	35	36
60,000 – 64,999	16	35
65,000 – 69,999	30	14
70,000 – 74,999	9	7
75,000 – 79,999	2	8
80,000 – 84,999	13	2
85,000 – 89,999	3	0
90,000 – 94,999	1	6
95,000 – 99,999	3	1
100,000 – 104,999	0	0
105,000 and above	1	1

^The 2018/19 figures include claims for reimbursement of expenses.

The numbers of exit packages with total cost per band and total cost of the exit packages, including redundancy payments, pension strain and unpaid leave are set out in the table below. The figures disclosed include exit packages for schools and the Council.

	No. of compulsory redundancies		No. of other departures agreed		Total no of exit packages by cost band		Total cost of exit packages in each band £000	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£0 - £20,000	35	22	60	41	95	63	492	455
£20,001 - £40,000	5	2	12	17	17	19	520	518
£40,001 - £60,000	3	2	3	4	6	6	299	286
£60,001 - £80,000	3	0	6	4	9	4	624	268
£80,001 +	3	2	5	8	8	10	1,009	1,197
	49	**28**	**86**	**74**	**135**	**102**	**2,944**	**2,724**

37. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2019/20 £000	2018/19 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	115	103
Fees payable to external audit for the certification of grant claims and returns	13	13
Fees payable in respect of other services provided by the external audit during the year	8	8
Total	**136**	**124**

38. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget. The Schools' Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG for 2019/20 are as follows:

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2019/20 before Academy recoupment	41,333	163,254	204,587
Central provision with Schools and De-delegated Budgets	3,578	(3,578)	0
Early Years Maintained Settings included in ISB on S251	(1,022)	1,022	0
Re-Allocation of High Needs to ISB	397	(397)	0
High Needs Commissioned Places	(7,347)	7,347	0
High Needs Recoupment	0	(4,841)	(4,841)
Academy figure recouped for 2019/20	0	(101,555)	(101,555)
Total DSG after Academy recoupment for 2019/20	**36,939**	**61,252**	**98,191**
In year adjustments	0	244	244
Agreed use of 2020/21 grant in advance	2,247	0	2,247
Final budgeted distribution in 2019/20	**39,186**	**61,496**	**100,682**
Less: Actual central expenditure	(37,534)	0	(37,534)
Less: Actual ISB deployed to schools	0	(59,879)	(59,879)
Early Years Maintained Settings included in ISB on S251	0	(1,022)	(1,022)
Less Expenditure funded by agreed use of 2020/21 grant in advance	(2,247)	0	(2,247)
Final expenditure in 2019/20	**(39,781)**	**(60,901)**	**(100,682)**
Carry forward to 2020/21	**(595)**	**595**	**(0)**

39. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2019/20:

	2019/20 £000	2018/19 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(6,119)	(13,301)
Local Services Support Grant	(243)	(252)
New Homes Bonus	(7,754)	(7,122)
Business Rates Relief Grant	(8,090)	(6,652)
Rural Service Support Grant	(6,614)	(6,614)

	2019/20 £000	2018/19 £000
Brexit Grant	(210)	0
Covid-19 LA Support Grant	(8,972)	0
Capital Grants & contributions	(37,925)	(43,678)
Total	**(75,927)**	**(77,619)**
Credited to Services		
DWP Housing Benefit	(51,473)	(58,897)
DWP Housing Benefit & Council Tax Benefit Admin Subsidy	(646)	(717)
MHCLG Waste PFI	(3,186)	(3,186)
MHCLG Social Services PFI	(1,523)	(1,523)
DFE Dedicated Schools Grant	(98,435)	(115,314)
DFE/DE Sixth Forms funding	(799)	(1,420)
DFE Pupil Premium Grant	(3,758)	(4,784)
DFE UFSM	(1,847)	(2,425)
DFE PE & Sports	(1,456)	(1,567)
Teachers Pay Grant	(768)	(446)
Teachers Pension employer contribution grant	(1,545)	0
DfT Bus Services Operators Grant	(512)	(655)
Winter Pressure	(1,394)	(1,394)
Strengthening Families	(1,566)	(924)
Resettlement	(422)	(508)
HO Asylum Seekers	(574)	(228)
Landscape Partnership Scheme	0	(1)
DoH Public Health Grant	(11,683)	(12,000)
MHCLG/DoH Adult Social Care New Burdens	(2,381)	(871)
Independent Living Fund Grant	(1,512)	(1,559)
Improved Better Care Fund	(10,121)	(8,288)
DWP Discretionary Housing Payment Grant	(468)	0
School monitoring and brokering grant	(582)	(117)
Flexible Homelessness grant	(456)	(337)
Other Grants	(4,895)	(4,278)
Capital Grants & contributions	(10,417)	(10,393)
Total	**(212,419)**	**(231,831)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31-Mar-20 £000	31-Mar-19 £000
Current Liabilities		
Grants Receipts in Advance (Capital Grants)		
Department of Transport	(720)	(908)
Department for Education	(29)	(1,312)

	31-Mar-20 £000	31-Mar-19 £000
Environment Agency	(413)	(259)
Homes England	(90)	(187)
Department for Digital, Culture, Media and Sport	(172)	0
Other Grants & Contributions	(3,469)	0
Total	**(4,893)**	**(2,666)**
Grants Receipts in Advance (Revenue Grants)		
EFA Designated Schools Grant	0	0
MHCLG Tackling Troubled Families	(12)	(1,043)
Standards Fund	(416)	(297)
SEN Reform	0	(163)
Arts Council	0	(238)
MHCLG Social Services PFI	(210)	(210)
MHCLG Business Rates Retention	(8,589)	0
Asylum Seekers	(394)	(242)
Adoption Support Fund	(241)	(122)
Other Grants	(584)	(865)
Total	**(10,446)**	**(3,180)**
TOTAL	(15,339)	(5,846)

40. COMMUNITIES INFRASTRUCTURE LEVY

The Communities Infrastructure Levy (CIL) is a planning charge that is applied to most types of new development within the county. A balance of CIL is being held within Grants Receipts in Advance – Capital and Creditors.

	2019/20		2018/19	
	£000	£000	£000	£000
Opening Balance April		**(23,100)**		**(17,251)**
Receipts received	(8,590)		(8,112)	
Expenditure incurred	3,264		2,263	
Closing Balance		(28,426)		(23,100)
Closing Balance allocated to:				
Neighbourhood Fund		1,571		1,602
Strategic Fund		2,920		2,222
Local Area Fund		23,935		19,276
Total		28,426		23,100

41. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme is technically a defined benefits scheme. However the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20, the Council paid £6.435m to Teachers' Pensions in respect of teachers' retirement benefits. The contribution rate for April 2019 to August 2019 was 16.48% and 23.68% for September 2019 to March 2020. The figures for 2018/19 were £6.417m and 16.48%. There were no contributions remaining payable at the year end.

Public Health employees previously employed by the NHS are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme.

In 2019/20, the Council paid £0.046m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.4% of pensionable pay. The figures for 2018/19 were £0.105m and 14.4%.

42. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered by Shropshire Council is a funded defined benefit scheme. This means that the Council and employees pay contributions into a fund, which is invested in accordance with the Local Government Pension Scheme Regulations.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme	
	2019/20	2018/19
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- current service cost	(30,763)	(26,694)
- past service gain/(cost)	(9,184)	(5,855)
- curtailment gain/(cost)	2,310	13,236
	(37,637)	**(19,313)**
Financing and Investment Income and Expenditure:		
- net interest expense	(11,565)	(10,210)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(49,202)**	**(29,523)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- return on plan assets	(52,865)	20,709
- experience (gain)/loss	(7,377)	(14,365)
- actuarial gains and losses arising on changes in demographic assumptions	62,900	0
- actuarial gains and losses arising on changes in financial assumptions	25,399	(63,336)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(21,145)**	**(86,515)**
Movement in Reserves Statement		
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	49,202	29,523
Actual amount charged against the Fund Balances for pensions in the year:		
- employers' contributions payable to scheme	(23,380)	(22,904)

Assets and Liabilities Recognised in the Balance Sheet

	2019/20 £000	2018/19 £000
Present value of the defined benefit obligation	(1,341,540)	(1,381,812)
Fair value of plan assets	845,840	891,191
Net liability arising from defined benefit obligation	**(495,700)**	**(490,621)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets

	Local Government Pension Scheme	
	2019/20	2018/19
	£000	£000
Opening fair value of scheme assets at 1 April	891,191	859,311
Interest income	21,343	22,755
Remeasurement gain/(loss):		
Return on plan assets excluding the amount included in the net interest expense	(52,865)	20,709

	Local Government Pension Scheme 2019/20 £000	Local Government Pension Scheme 2018/19 £000
Contributions from employer	23,380	22,904
Contributions from employees into the scheme	5,602	5,238
Benefits paid	(39,382)	(38,313)
Other	(3,429)	(1,413)
Closing fair value of scheme assets at 31 March	**845,840**	**891,191**

Reconciliation of Present Value of the Scheme Liabilities

	Local Government Pension Scheme	
	2019/20	2018/19
	£000	£000
Opening balance at 1 April	(1,381,812)	(1,278,947)
Current Service Cost	(30,229)	(26,187)
Interest Cost	(32,908)	(32,965)
Contributions from scheme participants	(5,602)	(5,238)
Remeasurement gain/(loss):		
Experience gains/losses	(7,377)	(14,365)
Actuarial gains/losses arising from changes in demographic assumptions	62,900	0
Actuarial gains/losses arising from changes in financial assumptions	25,399	(63,336)
Other	0	0
Past service costs	(9,184)	(5,855)
Losses/(gains) on curtailment	(1,406)	(1,842)
Benefits paid	39,382	38,313
Liabilities extinguished on settlements	6,611	15,984
Lump Sum Deficit Repayment	(7,314)	(7,374)
Closing balance at 31 March	**(1,341,540)**	**(1,381,812)**

Local Government Pension Scheme Assets

Assets in the Shropshire County Pension Fund consist of the following categories:

	2019/20 £000	2018/19 £000
Cash and cash equivalents	**10,996**	**56,858**
Equity investments:		
UK quoted	40,600	60,066
Global quoted	382,320	391,055
Sub-total equity	**422,920**	**451,121**
Bonds:		
Overseas Global Fixed Income	121,801	66,394

	2019/20 £000	2018/19 £000
PIMCO (Global Absolute return bond fund)	66,821	76,642
Sub-total bonds	**188,622**	**143,036**
Property:		
Property funds	36,371	47,500
Sub-total property	**36,371**	**47,500**
Alternatives:		
Private Equity	47,367	45,985
Infrastructure	30,450	33,776
Hedge Funds	54,134	59,710
BMO – LDI Manager	28,759	32,618
Property Debt	12,688	5,704
Insurance Linked Securities	13,533	14,883
Sub-total alternatives	**186,931**	**192,676**
Total assets	**845,840**	**891,191**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rate, salary levels and other variables.

The Council element of the Fund liabilities has been assessed by Mercer Limited, an independent firm of actuaries. Estimates for the Council element of the Fund are based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme 2019/20	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.9yrs	23.2yrs
Women	25.0yrs	26.4yrs
Longevity at 65 for future pensioners:		
Men	24.2yrs	25.4yrs
Women	26.6yrs	28.7yrs
Rate of inflation	2.10%	2.20%
Rate of increase in salaries	3.35%	3.70%
Rate of increase in pensions	2.20%	2.30%
Rate for discounting scheme liabilities	2.40%	2.40%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,378,249	1,361,612
Rate of inflation (increase or decrease by 0.1%)	1,362,095	1,366,236
Rate of increase in salaries (increase or decrease by 0.1%)	1,343,600	1,386,969
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,321,296	1,411,645

Techniques Employed to Manage Risk

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Further details of the market, credit and liquidity risk management are detailed in Note 16 of the Shropshire County Pension Fund Annual Report.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. A triennial valuation was completed as at 31 March 2019 with the next one due to be completed as at 31 March 2022. Revised contribution rates from the 2019 actuarial valuation will take effect on 1st April 2020.

The Government announced in 2019 that the "McCloud judgment" needs to be remedied for all schemes including the LGPS. The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. As part of the 2019 actuarial valuation, the actuary estimated that the cost of the judgment could be an increase in past service liabilities of broadly £12m (at a Fund level) and an increase in Primary Contribution rate of 0.8% of Pensionable pay per annum. Shropshire Council has chosen to pay this additional 0.8% and this will be included within the revised contribution rates.

The Council anticipated to pay £20.337m expected contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 15 years for 2019/20 (16 years 2018/19).

43. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Council, being responsible for the statutory framework within which the Council operates, provides the majority of its funding through the payment of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments appear in other parts of the Statement of Accounts.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Council's management team. All Council members and senior officers have been contacted, advising them of their obligations and asking for any declarations of related party transactions to be disclosed. Members are also asked to confirm that their entries in their Disclosure of Pecuniary Interests are correct.

The Council has made payments to a number of outside organisations on which it is represented by members. The total amount of payments to these bodies in 2019/20 was £27.971m compared with £22.605m for 2018/19.

Councillors are often members of other public or charitable organisations in their own capacity, or are employed by organisations that we process transactions with. These relationships are declared within the Members' register. The Council has made payments of £6.592m to organisations where members and senior officers are employed and £1.282m to organisations where members and senior officers occupy positions in their own capacity.

Entities Controlled or Significantly Influenced by the Council

As administrator for the pension fund, the Council has control of the fund within the overall statutory framework. The Council received £1.324m from the pension fund for the costs of administration it provided in 2019/20 compared with £1.543m for 2018/19.

The Council also has group relationships with West Mercia Energy, Shropshire Towns & Rural Housing and IP&E Ltd. Further detail on the type of relationship held with each company is considered in more detail under the Group Accounts section which begins on page 106.

During 2019/20 expenditure of £15.522m and income of £1.101m was incurred between Shropshire Council and Shropshire Towns & Rural Housing Limited. There was a creditor balance of £1.130m and a debtor balance of £0.491m as at 31st March 2020.

There was no income or expenditure incurred between Shropshire Council and IP&E Ltd during 2019/20. There were no creditor or debtor balances as at 31st March 2020.

During 2019/20 Shropshire Council paid West Mercia Energy £4.351m and received a distribution of £0.172m.

Shropshire Council have accounted for expenditure of £3.697m and income of £4.102m in relation to the Jersey Property Unit Trusts.

44. SCHOOLS

Transactions of Shropshire Council maintained schools are consolidated in the single entity financial statements.

Expenditure and income relating to these schools is detailed below:

	Expenditure £000	Income £000	Total £000
Primary	62,178	(61,901)	277
Secondary	9,524	(10,007)	(482)
Special	3,110	(2,921)	189
Total	**74,812**	**(74,829)**	**(16)**

The number of Shropshire Council maintained schools in 2019/20 was:

	31st March 2020	31st March 2019
Primary	85	88
Secondary	1	2
Special	2	2
Total	**88**	**92**

45. MARCHES LOCAL ENTERPRISE PARTNERSHIP

The Marches Local Enterprise Partnership was launched in 2010 to create conditions for economic vitality and sustainable employment across the regions represented by the 3 Councils.

The Marches Local Enterpise Partnership Limited was incorporated on 12th February 2019 however the grant funding is still received by Shropshire Council as the accountable body for the Marches LEP. All funding and transactions in relation to this funding are processed through Shropshire Council's accounts. Shropshire Council's role within these transactions is deemed to be an agent, acting as an intermediary, therefore Shropshire Council accounts do not include the total income and expenditure for the Marches LEP. Instead, each Council within the Marches LEP will include any funding received from the Marches LEP and expenditure incurred in relation to LEP projects within their accounts. Accordingly any cash balances held by Shropshire Council in relation to the LEP is represented by a creditor within the Council's accounts.

Detailed below are the total funding received and expenditure paid out (cash) by Shropshire Council by 31st March in relation to the Marches LEP including the net creditor within Shropshire Council's balance sheet.

	2019/20		2018/19	
	£000	£000	£000	£000
Opening Creditor 1 April		**(14,727)**		**(11,118)**
Funding Received:				
Growth Deal	(29,468)		(8,188)	
Growth Hub	(240)		(208)	
Core Funding	(856)		(500)	
Capacity and Other Project Funding	0		(204)	
Careers & Enterprise	(141)		(98)	
Match Funding – Partner Contributions	(60)		(191)	
Marches Investment Fund	(229)		(449)	
Interest Received	0		(145)	
		(30,994)		(9,983)
Expenditure:				
Growth Deal Projects	6,017		5,300	
Growth Hub	215		212	
Capacity Funding Projects	212		209	
Careers & Enterprise	124		86	
Marches Investment Fund Expenditure	0		25	
LEP Review Project	280		0	
LEP Management Costs	456		542	
		7,304		6,374
Marches LEP Creditor		**(38,417)**		**(14,727)**

46. BETTER CARE FUND

Shropshire Council and Shropshire CCG are partners in the provision of a range of services including support to hospital admission avoidance, hospital discharge planning, carers support and housing. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006.

The aims and benefits of the Partners in entering in to this Agreement are to:

- improve the quality and efficiency of the Services;
- meet the National Conditions and Local Objectives as set out in the Better Care Fund plan;
- make more effective use of resources through the establishment and maintenance of an aligned fund for revenue expenditure on the Services;

Financing	2019/20 £000	2018/19 £000
Lead Commissioning Arrangement		
Funding provided to the Better Care Fund:		

Financing	2019/20 £000	2018/19 £000
Shropshire Council	0	0
Shropshire CCG	(7,779)	(7,779)
	(7,779)	**(7,779)**
Expenditure met from the Better Care Fund:		
Shropshire Council	7,779	7,779
Shropshire CCG	0	0
	7,779	**7,779**
Aligned Budget Arrangement		
Funding provided to the Better Care Fund:		
Shropshire Council	(19,356)	(13,745)
Shropshire CCG	(13,839)	(12,242)
	(33,195)	**(25,987)**
Expenditure met from the Better Care Fund:		
Shropshire Council	18,438	12,738
Shropshire CCG	13,839	12,242
	32,277	**24,980**
Total Better Care Fund		
Total funding provided to the Better Care Fund	(40,974)	(33,766)
Total expenditure met from the Better Care Fund	40,056	32,759
Net underspend arising on the Better Care Fund during the year	**918**	**(1,007)**

47. TRUST ACCOUNTS

Funds held in Trust Accounts are not available for the Council's use. The Council supports the work of a number of trusts including:

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
Shropshire Youth Foundation	Supports the development of under 25 year old residents in Shropshire through their leisure time activities.	(9,114)	21,332	237,236	(1,400)
Shropshire Schools Jubilee Trust	General fund to support the learning needs of children and young people either living or studying in Shropshire.	(3,814)	20,189	137,140	0
Rosalie Inskip Music Trust	Supports excellence in music for young people living in Shropshire.	(6,997)	37,953	302,023	0
Priory Educational Trust	Charitable trust to support ex-pupils of Priory Boys School.	(1,045)	5,979	50,668	0
Lyneal Trust	A charity that offers canal and canal side holidays for people with disabilities, their family and friends.	(82,327)	76,830	622,739	(14,092)

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
Sight Loss Shropshire	A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin	(36,183)	121,846	525,927	0

Accounts are prepared and published for these organisations by Shropshire Council in our role of administering the trusts.

Trusts deliver great benefit into the local community and make a valuable contribution but the Council itself does not derive benefit from them.

48. CONTINGENT LIABILITIES

At 31 March 2020 Council had the identified the following contingent liabilities:

There are a number of legal cases outstanding that may result in future costs for the Council. These include:

- Employment tribunal claim
- Planning Inquiries
- Judicial Reviews for planning matters
- Potential action relating to a concessionary travel scheme.
- Potential planning enforcement cases where there is the possibility that we will need to do the works and try to recover the costs.

The Council's usual practice when outsourcing a service that requires continued pension provision for employees is to require the contractor to put a Bond in place to reduce the Council's risk regarding picking up outstanding pension liabilities on termination of the admission agreement. The Council has provided additional guarantees, above those covered automatically by the Local Government Pension Scheme Regulations, to a number of Bodies that have been admitted to the Shropshire County Pension Fund. The bodies with additional guarantees who currently have employees who are active members of the scheme are listed below. The Bodies listed as being grouped with Shropshire Council means all Pension assets and liabilities stay with the Council and they contribute the consolidated Council Employer pension contribution rate unless stated otherwise.

Bodies that have additional pension liability guarantee

Employer	Active Members	Deferred Members	Pensioners Members	Dependant Members	Surplus/(Deficit) as at 31/03/2019 Valuation
Age UK Telford & Wrekin	4	12	22	0	(£0.132m)
Association of Local Councils	2	0	1	0	(£0.037m)
Coverage Care from 1/3/1997	8	33	124	10	£1.111m
Coverage Care from 13/1/2013	14	19	10	1	£0.448m
Livability	1	1	0	0	£0.000m

Employer	Active Members	Deferred Members	Pensioners Members	Dependant Members	Surplus/(Deficit) as at 31/03/2019 Valuation
Perthyn	6	8	5	0	£0.007m
Shropshire Towns & Rural Housing	127	43	12	1	(£0.007m)
Connexus Housing One Ltd	3	2	16	2	£0.727m

<u>Bodies that have additional pension liability guarantee and are Grouped with the Council</u>

Employer	Active Members	Deferred Members	Pensioners Members	Dependant Members
Bethphage from 8/12/2016	17	3	0	0
Bethphage from1/7/2017	9	1	1	0
Energize Shropshire Telford & Wrekin	1	0	0	0
Enterprise South West Shropshire	1	1	0	0
South Shropshire Leisure Ltd *	14	27	4	0
The Strettons Mayfair Trust	2	0	0	0

* South Shropshire Leisure Ltd Employer contribution rate is capped by the Council to 5%.

The Council has entered into six “Funding and Development Agreements” with a Development Trust for construction of supported living properties. Under these agreements the Development Trust has provided the Council with funding totalling £2.696m for the construction of a supported living property at each site. The contributions will be repayable if the properties cease to be used as supported living properties or the Council fails to conform to the stipulated conditions of the contract within a period of 30 years from when the properties are first occupied.

Nationally a number of legal challenges have been brought by workers who are challenging that their employers have not paid the National Living Wage where ‘sleep in’ services have been provided. Whilst Shropshire Council has mitigated the risk of future claims by adding a top-up payment for sleep in services, there remains a risk in relation to any back pay claims. As the matter is complex it is considered impossible to quantify.

49. CONTINGENT ASSETS

The Council currently has a number of appeals lodged with HMRC with regard to VAT treatment, which may result in a reimbursement to the Council of VAT paid over to the Government. The specific cases include claims for postal services and waste sent for landfill.

These claims for reimbursement are subject to legal cases being pursued nationally and if successful will provide legal precedent to be applied. Therefore the values involved with each claim cannot be reliably estimated. Timescales on these cases are uncertain but should be progressed in the next 12-24 months.

Section 6
Group Accounts

Group Accounts

Introduction

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2019 to 31 March 2020. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies mean that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture. A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts. The transactions involved are not considered material to the Council's accounts however the Council has decided to provide a full disclosure in terms of bodies that it has a relationship with.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2020, with comparative figures for the previous financial year.

IP&E LIMITED

ip&e Ltd is a trading company wholly owned by Shropshire Council. It was established to provide public services on the council's behalf and also to trade with other organisations. The company was incorporated on 30 May 2012. On 17 February 2016, Cabinet agreed to bring the Council's relationship with ip&e Ltd to an end and terminate the strategic contract between the two parties. It was also agreed to terminate the service contracts between the Council and ip&e Ltd with effect from 31 March 2016. In its role as sole shareholder, the Cabinet agreed that ip&e Ltd should cease trading as soon as possible and take necessary actions to remove the company from the companies register. In 2019/20 the final financial transactions were undertaken enabling the company to be dissolved and removed from the companies register in 2020/21.

SHROPSHIRE TOWNS & RURAL HOUSING LIMITED

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013.

For 2019/20 Shropshire Towns and Rural Housing Limited had total income of £15.617m, total expenditure of £15.188m, assets of £6.885m and liabilities of £8.810m.

WEST MERCIA ENERGY

West Mercia Energy (WME) is a Purchasing Consortium that was established as a Joint Committee under s101 of the Local Government Act 1972. Shropshire Council is one of four constituent

Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Telford & Wrekin Council.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

For 2019/20 West Mercia Energy had total income of £70.963m, total expenditure of £70.787m, assets of £19.179m and liabilities of £24.349m.

JERSEY PROPERTY UNIT TRUST

On 24th January 2018 Shropshire Council purchased units in a Jersey Property Unit Trust. The Trust is responsible for appointing managing agents for the Shrewsbury Shopping Centres and any other day to day decisions affecting the trust.

For 2019/20 the Jersey Property Unit Trust had total income of £4.144m, total operating expenditure of £3.734m, assets of £23.169m and liabilities of £2.555m.

SSC No.1 LIMITED

SSC No.1 Limited is a limited company wholly owned by Shropshire Council. The Company's principal activity is to hold an investment in a Jersey Property Unit Trust.

For 2019/20 the amounts incorporated into the group accounts for SSC No. Limited are income of £0.011m, total expenditure of £0.019m, assets of £0.019m and liabilities of £0.016m.

CORNOVII DEVELOPMENTS LIMITED

Cornovii Developments Limited is a limited company wholly owned by Shropshire Council. The Company's principal activity and reason for it being established is to address unmet housing need in the county of Shropshire.

For 2019/20 the amounts incorporated into the group accounts for SSC No. Limited are total expenditure of £0.228m, assets of £1.143m and liabilities of £1.371m.

The Group Comprehensive Income & Expenditure Statement

2018/19 SC Expenditure £000	2018/19 Adjustments £000	2018/19 Group Expenditure £000	2018/19 SC Income £000	2018/19 Adjustments £000	2018/19 Group Income £000	2018/19 SC Net Expenditure £000	2018/19 Adjustments £000	2018/19 Group Net Expenditure £000		2019/20 SC Expenditure £000	2019/20 Adjustments £000	2019/20 Group Expenditure £000	2019/20 SC Income £000	2019/20 Adjustments £000	2019/20 Group Income £000	2019/20 SC Net Expenditure £000	2019/20 Adjustments £000	2019/20 Group Net Expenditure £000
									Expenditure on Continuing Services									
163,328	0	163,328	(61,452)	0	(61,452)	101,876	0	101,876	Adult Services	177,619	0	177,619	(64,931)	0	(64,931)	112,688	0	112,688
9,741	3,300	13,041	(18,150)	(2,792)	(20,942)	(8,409)	508	(7,901)	Local Authority Housing	10,380	635	11,015	(18,366)	(1,196)	(19,562)	(7,986)	(561)	(8,547)
198,979	0	198,979	(143,422)	0	(143,422)	55,557	0	55,557	Children's Services	196,766	0	196,766	(127,946)	0	(127,946)	68,820	0	68,820
64,305	0	64,305	(61,691)	0	(61,691)	2,614	0	2,614	Finance, Governance and Assurance	56,965	0	56,965	(54,188)	0	(54,188)	2,777	0	2,777
604	0	604	(491)	0	(491)	113	0	113	Legal and Democratic Services	1,703	0	1,703	(1,027)	0	(1,027)	676	0	676
135,016	220	135,236	(44,890)	(95)	(44,984)	90,127	126	90,252	Place	156,708	161	156,869	(45,499)	311	(45,188)	111,209	472	111,681
0	0	0	0	0	0	0	0	0	Strategic Management Board	0	0	0	0		0	0	0	0
5,740	0	5,740	(60)	0	(60)	5,680	0	5,680	Workforce and Transformation	5,743	0	5,743	(61)	0	(61)	5,682	0	5,682
133	209	342	(7,133)	0	(7,133)	(7,000)	209	(6,791)	Corporate	14,654	172	14,826	(10,121)	0	(10,121)	4,533	172	4,705
577,847	**3,729**	**581,576**	**(337,288)**	**(2,887)**	**(340,175)**	**240,559**	**842**	**241,401**	**Net Cost of Services**	**620,538**	**968**	**621,506**	**(322,139)**	**(885)**	**(323,024)**	**298,399**	**83**	**298,482**
						81,827	0	81,827	Other Operating Expenditure							27,542	0	27,542
						30,986	112	31,098	Financing and Investment Income and Expenditure							39,556	129	39,685
						(284,993)	0	(284,993)	Taxation and Non Specific Grant Income							(292,441)	0	(292,441)

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2018/19										2019/20								
SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure		SC Expenditure	Adjustments	Group Expenditure	SC Income	Adjustments	Group Income	SC Net Expenditure	Adjustments	Group Net Expenditure
£000	£000	£000	£000	£000	£000	£000	£000	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000
						68,379	**954**	**69,333**	**(Surplus)/Deficit on the provision of services**							**73,056**	**212**	**73,268**
						0	(212)	(212)	Associates & Joint Ventures Accounted for on an equity basis							0	(245)	(245)
						0	0	0	Tax expenses of subsidiaries							0	0	0
						68,379	**742**	**69,121**	**Group (Surplus)/Deficit**							**73,056**	**(33)**	**73,023**
						(39,431)	0	(39,431)	(Surplus) or deficit on revaluation of non-current assets							(92,765)	0	(92,765)
						119	0	119	Impairment losses on Non-Current Assets Charged to the Revaluation Reserve									0
						56,992	830	57,822	Remeasurement of pension assets and liabilities							(28,057)	1,217	(26,840)
						0	0	0	Other Pension Net Liability Adjustment							0	0	0
						17,680	**830**	**18,510**	**Other Comprehensive Income and Expenditure**							**(120,822)**	**1,217**	**(119,605)**
						86,059	**1,572**	**87,631**	**Total Comprehensive Income and Expenditure**							**(47,766)**	**1,184**	**(46,582)**

Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**	**(2,651)**	**350,819**
Movement in reserves during 2019/20											
Surplus or (deficit) on the provision of services	(64,765)	0	(64,765)	5,716	0	0	(59,049)	0	(59,049)	(13,974)	(73,023)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	120,822	120,822	(1,217)	119,605
Total Comprehensive Income and Expenditure	**(64,765)**	**0**	**(64,765)**	**5,716**	**0**	**0**	**(59,049)**	**120,822**	**61,773**	**(15,191)**	**46,582**
Adjustments between Group Accounts and authority accounts	(14,007)	0	(14,007)	0	0	0	(14,007)	0	(14,007)	14,007	0
Net Increase/Decrease before Transfers	**(78,772)**	**0**	**(78,772)**	**5,716**	**0**	**0**	**(73,056)**	**120,822**	**47,766**	**(1,184)**	**46,582**
Adjustments between accounting basis and funding basis under regulations	73,083	0	73,083	(5,459)	252	7,587	75,463	(75,463)	0	17	17
Net Increase/Decrease before Transfers to Earmarked Reserves	**(5,689)**	**0**	**(5,689)**	**257**	**252**	**7,587**	**2,407**	**45,359**	**47,766**	**(1,167)**	**46,599**
Transfers to/from Earmarked Reserves	3,663	(3,733)	(70)	70	0	0	0	0	0	0	0
Increase/Decrease in 2019/20	**(2,026)**	**(3,733)**	**(5,759)**	**327**	**252**	**7,587**	**2,407**	**45,359**	**48,368**	**(1,167)**	**46,599**
Balance at 31 March 2020	**13,510**	**67,993**	**81,503**	**10,141**	**4,492**	**41,985**	**138,121**	**263,115**	**401,236**	**(3,818)**	**397,418**

2018/19 Comparative figures	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2018	**15,311**	**69,839**	**85,150**	**8,225**	**4,514**	**21,426**	**119,315**	**320,214**	**439,529**	**(1,064)**	**438,465**
Movement in reserves during 2018/19											
Surplus or (deficit) on the provision of services	(63,611)	0	(63,611)	5,703	0	0	(57,908)	0	(57,908)	(11,213)	(69,121)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(17,680)	(17,680)	(830)	(18,510)
Total Comprehensive Income and Expenditure	**(63,611)**	**0**	**(63,611)**	**5,703**	**0**	**0**	**(57,908)**	**(17,680)**	**(75,588)**	**(12,043)**	**(87,631)**
Adjustments between Group Accounts and authority accounts	(10,471)	0	(10,471)	0	0	0	(10,471)	0	(10,471)	10,471	0
Net Increase/Decrease before Transfers	**(74,082)**	**0**	(74,082)	**5,703**	**0**	**0**	**(68,379)**	**(17,680)**	**(86,059)**	**(1,572)**	**(87,631)**
Adjustments between accounting basis and funding basis under regulations	76,194	0	76,194	(4,114)	(274)	12,972	84,778	(84,778)	0	(15)	(15)
Net Increase/Decrease before Transfers to Earmarked Reserves	**2,112**	**0**	**2,112**	**1,589**	**(274)**	**12,972**	**16,399**	**(102,458)**	**(86,059)**	**(1,587)**	**(87,646)**
Transfers to/from Earmarked Reserves	(1,887)	1,887	0	0	0	0	0	0	0	0	0
Increase/Decrease in 2018/19	**225**	**1,887**	**2,112**	**1,589**	**(274)**	**12,972**	**16,399**	**(102,458)**	**(86,059)**	**(1,587)**	**(87,646)**
Balance at 31 March 2019	**15,536**	**71,726**	**87,262**	**9,814**	**4,240**	**34,398**	**135,714**	**217,756**	**353,470**	**(2,651)**	**350,819**

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authoritys Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Purchase of goods and services from subsidiaries	14,007	0	0	0	14,007	0	14,007	(14,007)	0
Total adjustments between Group Accounts and authority accounts	**14,007**	**0**	**0**	**0**	**14,007**	**0**	**14,007**	**(14,007)**	**0**

Group Balance Sheet at 31 March 2020

31 March 2019 SC £000	31 March 2019 Adjustments £000	31 March 2019 Group £000		31 March 2020 SC £000	31 March 2020 Adjustments £000	31 March 2020 Group £000
1,069,254	40,776	1,110,030	Property, Plant & Equipment	1,138,479	18,066	1,156,545
2,335	0	2,335	Heritage Assets	2,260	0	2,260
50,884	0	50,884	Investment Property	47,652	0	47,652
4,051	0	4,051	Intangible Assets	7,376	0	7,376
599	0	599	Assets Held for Sale	585	0	585
1,127,123	**40,776**	**1,167,899**	**Total Non-Current Assets**	**1,196,352**	**18,066**	**1,214,418**
40,920	(40,520)	400	Long Term Investment	20,206	(19,806)	400
0	(1,374)	(1,374)	Investments in Associates and Joint Ventures	0	(1,264)	(1,264)
19,564	0	19,564	Long Term Debtors	19,857	(1,000)	18,857
1,187,607	**(1,118)**	**1,186,489**	**Total Long Term Assets**	**1,236,415**	**(4,004)**	**1,232,411**
			Current Assets			
3,822	0	3,822	Current Held for Sale Investment Properties	740	0	740
1,432	0	1,432	Assets Held for Sale	3,102	0	3,102
64,910	(527)	64,383	Short Term Investments	64,500	0	64,500
702	24	726	Inventories	572	180	752
55,943	449	56,392	Short Term Debtors	67,373	220	67,593
64,060	5,335	69,395	Cash & Cash Equivalents	93,007	8,879	101,886
190,869	**5,281**	**196,150**	**Total Current Assets**	**229,294**	**9,279**	**238,573**
1,378,476	**4,163**	**1,382,639**	**Total Assets**	**1,465,709**	**5,275**	**1,470,984**
			Current Liabilities			
(7,005)	0	(7,005)	Bank Overdraft	(14,644)	0	(14,644)
(1,101)	0	(1,101)	Deferred Income	0	0	0
(10,873)	0	(10,873)	Short Term Borrowing	(6,013)	0	(6,013)
(76,401)	(1,773)	(78,174)	Short Term Creditors	(106,991)	(2,290)	(109,281)
(2,167)	0	(2,167)	Provisions	(3,576)	0	(3,576)
(3,180)	0	(3,180)	Grants Receipts in Advance – Revenue	(10,446)	0	(10,446)
(2,779)	0	(2,779)	Grants Receipts in Advance – Capital	(4,893)	0	(4,893)
(103,506)	**(1,773)**	**(105,279)**	**Total Current Liabilities**	**146,563**	**(2,290)**	**(148,853)**
1,274,970	**2,390**	**1,277,360**	**Total Assets Less Current Liabilities**	**1,319,146**	**2,985**	**1,322,131**
			Long Term Liabilities			
(661)	0	(661)	Long Term Creditors	(649)	0	(649)
(307,568)	0	(307,568)	Long Term Borrowing	(303,568)	0	(303,568)
(112,406)	0	(112,406)	Other Long Term Liabilities	(106,914)	0	(106,914)
(490,621)	(5,041)	(495,662)	Pensions Liability	(495,700)	(6,803)	(502,503)
(10,244)	0	(10,244)	Provisions	(11,079)	0	(11,079)
(921,500)	**(5,041)**	**(926,541)**	**Total Long Term Liabilities**	**(917,910)**	**(6,803)**	**(924,713)**
353,470	**(2,651)**	**350,819**	**Total Assets Less Liabilities**	**401,236**	**(3,818)**	**397,418**
			Financed by:			
135,714	4,221	139,935	Usable Reserves	138,121	5,030	143,151
217,756	(6,872)	210,884	Unusable Reserves	263,115	(8,848)	254,267
353,470	**(2,651)**	**350,819**	**Total Reserves**	**401,236**	**(3,818)**	**397,418**

Group Cash Flow Statement

SC £000 (2018/19)	Adjustments £000 (2018/19)	Group £000 (2018/19)	Revenue Activities	SC £000 (2019/20)	Adjustments £000 (2019/20)	Group £000 (2019/20)
68,379	742	69,121	Net (surplus) or deficit on the provision of services	73,056	(33)	73,023
(139,956)	87	(139,869)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(152,807)	(526)	(153,333)
74,081	(31)	74,050	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	55,113	(30)	55,083
2,504	**798**	**3,302**	**Net cash flows from operating activities**	**(24,638)**	**(589)**	**(25,227)**
(26,272)	(104)	(26,376)	Investing activities	(5,390)	(2,783)	(8,173)
(870)	(195)	(1,065)	Financing activities	8,720	(172)	8,548
(24,638)	**499**	**(24,139)**	**Net (increase) or decrease in cash and cash equivalents**	**(21,308)**	**(3,544)**	**(24,852)**
32,417	5,834	38,251	Cash and cash equivalents at the beginning of the reporting period	57,055	5,335	62,390
57,055	**5,335**	**62,390**	**Cash and cash equivalents at the end of the reporting period**	**78,363**	**8,879**	**87,242**

Notes to Group Accounts

G1. Accounting Policies

G1.1 General

The single entity accounting policies detailed on pages 24-45 have been adopted and applied for group account purposes.

G1.2 Reason for Consolidation

The organisations included within Group Accounts have been assessed to establish whether Shropshire Council controls the entity, has significant influence over the entity or has joint control of the arrangement. If the organisation does not meet one of these criteria then it is not included within the Group Accounts.

ip&e Ltd, Shropshire Towns and Rural Housing Limited, Cornovii Developments Limited and SSC No.1 Limited are all wholly owned by Shropshire Council. Shropshire Council controls each of the organisations therefore they have been consolidated into the Group Accounts as subsidiaries.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and Telford & Wrekin Council. The Council has joint control over the arrangement and has rights to share the net assets. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

The Council has control over the Jersey Property Unit Trusts as it is exposed to risk and variable returns and has the ability to affect those returns through approval of key strategic decisions. The Jersey Property Unit Trusts have therefore been included within Group Accounts as a subsidiary.

G1.3 Basis for Consolidation

ip&e Ltd has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

Shropshire Towns and Rural Housing Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

WME has been accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures). Shropshire Council's share of West Mercia Energy' balances is 24.5%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on draft statement of accounts for 31st March 2020.

The Jersey Property Unit Trust has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3.

SSC No.1 Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3 with the accounts for the Jersey Property Unit Trust.

Cornovii Developments Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet.

G1.4 Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

<u>Recognition</u>
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

The Shopping Centre has been consolidated into property, plant and equipment in the Balance Sheet based on the market value.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at current value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
Operational	
Land & Buildings	Existing Use Value (EUV) – determined as the amount that would be paid for the asset in its existing use

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

G2. Consolidation of West Mercia Energy

Figures in respect of West Mercia Energy have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WME £000	SC Share (24.5%) £000
Turnover	(70,963)	(17,355)
Cost of Goods Sold and Operating Expenses	69,960	17,110
Interest and Investment Income	123	30
Net Operating Surplus	**(880)**	**(215)**
Distribution of Surplus to Member Authorities	704	172
Net deficit for the year	**(176)**	**(43)**

G3. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£15.617m) and expenditure (£15.103m) of Shropshire Towns & Rural Housing Limited, giving a net income of £0.514m has been included within Local Authority Housing (HRA) in the Net Cost of Services. The inter-company transactions with Shropshire Council have been excluded from Local Authority Housing (HRA) (Income/Expenditure £14.421m).

G4. Consolidation of ip&e Ltd

There was no operating expenditure or income for ip&e Ltd in 2019/20.

G5. Consolidation of Jersey Property Unit Trust

The operating income (£4.144m) and expenditure (£3.734m) of the Jersey Property Unit Trust, giving a net income of £0.409m has been included within Place in the Net Cost of Services. The revaluation loss has been charged to expenditure within Place in Net Cost of Services.

G6. Consolidation of SSC No.1 Ltd

The operating income (£0.011m) and expenditure (£0.019m) of SSC No1. Ltd, giving a net expenditure of £0.008m has been included within Place in the Net Cost of Services. 100% of the income and expenditure of the Jersey Property Unit Trust has been consolidated into the Income and Expenditure account as detailed above therefore this has been excluded when consolidating SSC No1. Ltd.

G7. Consolidation of Cornovii Developments Ltd

The operating expenditure (£0.220m) of Cornovii Developments Ltd has been included within Place in the Net Cost of Services.

G8. Investment included in Group Balance Sheet

	WME £000	SC Share (24.5%) £000
Assets		
Plant & Equipment	14	3
Short term debtors	11,794	2,885
Cash and cash equivalents	7,371	1,803
Total Assets	**19,179**	**4,691**
Liabilities		
Short term creditors	(17,421)	(4,261)
Other long term liabilities	(6,928)	(1,694)
Total Liabilities	**(24,349)**	**(5,955)**
Net Investments in Associates and Joint Ventures	**(5,170)**	**(1,264)**

G9. Property, Plant & Equipment in Group Balance Sheet

The figures below provide information on the movement of non-current assets during 2019/20.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2019	**196,767**	**567,078**	**19,898**	**525,492**	**3,578**	**2,115**	**7,525**	**1,322,453**	**137,179**
Additions	5,808	5,823	3,940	17,425	0	0	8,354	**41,350**	2,303

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10	48,862	0	0	0	(186)	0	**48,686**	4,801
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(630)	(27,630)	0	0	0	177	0	**(28,083)**	433
Derecognition – disposals	(2,020)	(17,805)	(61)	0	0	0	0	**(19,886)**	0
Derecognition – other	(142)	(1,951)	(1,463)	0	(617)	(80)	0	**(4,253)**	(1,111)
Assets reclassified (to)/from Held for Sale	(500)	(947)	0	0	0	(595)	0	**(2,042)**	0
Other movements in cost or valuation	732	(329)	0	353	0	1,294	(3,016)	**(966)**	0
At 31 March 2020	**200,025**	**573,101**	**22,314**	**543,270**	**2,961**	**2,725**	**12,863**	**1,357,259**	**143,605**
Depreciation and Impairments									
At 1 April 2019	**(136)**	**(30,243)**	**(6,808)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,423)**	**(9,650)**
Depreciation charge for 2019/20	(3,908)	(16,303)	(3,169)	(16,923)	(174)	(51)	0	**(40,528)**	(6,416)
Depreciation written out to the Revaluation Reserve	252	43,808	0	0	0	18	0	**44,078**	8,617
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,780	1,122	0	0	0	45	0	**4,947**	228
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**	0
Derecognition – disposals	0	1,446	24	0	0	0	0	**1,470**	0
Derecognition – other	12	90	944	0	616	80	0	**1,742**	535
Other movements in depreciation and impairment	0	80	0	0	0	(80)	0	**0**	0
At 31 March 2020	**0**	**0**	**(9,009)**	**(189,693)**	**(1,006)**	**(1,006)**	**0**	**(200,714)**	**(6,686)**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant, & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
NBV at 31 March 2020	**200,025**	**573,101**	**13,305**	**353,577**	**1,955**	**1,719**	**12,863**	**1,156,545**	**136,919**
NBV at 31 March 2019	**196,631**	**536,835**	**13,090**	**352,722**	**2,130**	**1,097**	**7,525**	**1,110,030**	**127,529**

The comparative movements in 2018/19 were as detailed below:

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation At 1 April 2018	**193,735**	**627,793**	**18,120**	**507,329**	**3,573**	**2,311**	**5,334**	**1,358,195**	**135,823**
Additions	4,683	4,672	3,383	17,843	5	0	5,153	**35,739**	2,087
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(46)	22,076	0	0	0	159	0	**22,189**	2,765
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(297)	(12,961)	0	0	0	0	0	**(13,258)**	0
Derecognition – disposals	(1,483)	(76,337)	(393)	0	0	0	0	**(78,213)**	0
Derecognition – other	0	(1,326)	(1,212)	0	0	(3)	0	**(2,541)**	(467)
Assets reclassified (to)/from Held for Sale	13	598	0	0	0	(162)	0	**449**	0
Other movements in cost or valuation	162	2,563	0	320	0	(190)	(2,962)	**(107)**	(3,029)
At 31 March 2019	**196,767**	**567,078**	**19,898**	**525,492**	**3,578**	**2,115**	**7,525**	**1,322,453**	**137,179**
Depreciation and Impairments At 1 April 2018	**0**	**(38,946)**	**(5,348)**	**(157,495)**	**(1,273)**	**(1,018)**	**0**	**(204,080)**	**(17,159)**
Depreciation charge for 2018/19	(3,943)	(15,922)	(2,866)	(15,275)	(175)	(6)	0	**(38,187)**	(6,207)
Depreciation written out to the Revaluation Reserve	0	17,241	0	0	0	0	0	**17,241**	10,229

	Council Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,807	35	0	0	0	0	0	**3,842**	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(119)	0	0	0	0	0	**(119)**	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	1,373	0	0	0	0	0	**1,373**	0
Derecognition – disposals	0	4,176	204	0	0	0	0	**4,380**	0
Derecognition – other	0	49	1,202	0	0	3	0	**1,254**	458
Other movements in depreciation and impairment	0	1,870	0	0	0	3	0	**1,873**	3,029
At 31 March 2019	**(136)**	**(30,243)**	**(6,808)**	**(172,770)**	**(1,448)**	**(1,018)**	**0**	**(212,423)**	**(9,650)**
NBV at 31 March 2019	**196,631**	**545,569**	**13,090**	**352,722**	**2,130**	**1,097**	**7,525**	**1,110,030**	**127,529**
NBV at 31 March 2018	**193,735**	**588,847**	**12,772**	**349,834**	**2,300**	**1,293**	**5,334**	**1,154,115**	**118,664**

G10. Goodwill

The figures below provide information on the movement of goodwill included within the Group Accounts.

	2019/20 £000	2018/19 £000
Opening Balance	0	2,775
Recognised in year	0	0
Impairment	0	(2,775)
Closing Balance	**0**	**0**

G11. Contingent Assets and Liabilities

On the acquisition of the Jersey Property Unit Trusts a rental guarantees Escrow account was set up. This account is distributed to Shropshire Council and SSC No.1 Ltd or the previous owners Standard Life Aberdeen based on the level of occupancy of units within the Shrewsbury Shopping Centres. The funds held within the escrow as at 31st March 2019 were all distributed in 2019/20.

	2019/20 £000	2018/19 £000
Opening Balance	1,383	2,394
Release of funding	(1,383)	(1,011)
Closing Balance	**0**	**1,383**

Section 7

Housing Revenue Account

Housing Revenue Account

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA INCOME AND EXPENDITURE STATEMENT

2018/19		2019/20	
£		£	£
	Expenditure		
5,377,717	Repairs & Maintenance	5,408,335	
3,600,302	Supervision and Management	3,869,719	
127,178	Rents, rates taxes and other charges	91,501	
3,806,540	Depreciation – Dwellings	3,780,100	
172,020	- Other	172,990	
(3,509,194)	Impairment, revaluation losses and (reversals of impairment or revaluation losses)	(3,150,792)	
27,480	Debt Management Costs	34,080	
50,000	Provision for Bad or Doubtful Debts	50,000	
9,652,043	**Total Expenditure**		**10,255,933**
	Income		
(17,267,828)	Dwelling Rents	(17,360,717)	
(131,583)	Non Dwelling Rents	(123,492)	
(87,931)	Other Income	(291,179)	
(662,764)	Charges for Services and Facilities	(590,633)	
(30,000)	Contributions towards expenditure	0	
(18,180,106)	**Total Income**		**(18,366,021)**
(8,528,063)			**(8,110,088)**
139,043	HRA Share of Corporate & Democratic Core		173,630
(8,389,020)	**Net Cost of HRA Services**		**(7,936,458)**
(135,339)	(Gain) or loss on sale of HRA Assets		(431,635)
2,990,646	Interest payable and similar charges		2,989,757
(141,117)	Interest and Investment Income		(176,490)
(28,141)	Income & Expenditure in relation to investment properties & change in fair values		(21,690)
0	Capital grants and contributions receivable		(139,574)
(5,702,971)	**(Surplus) or deficit for the year on HRA Services**		**(5,716,090)**

MOVEMENT ON THE HRA STATEMENT

2018/19 £		2019/20 £
(8,224,821)	**Balance on the HRA at the end of the previous year**	**(9,813,486)**
(5,702,971)	**(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement**	**(5,716,090)**
4,114,306	Adjustments between accounting basis and funding basis under statute	5,459,263
(1,588,665)	**Net increase or (decrease) before transfers to or from reserves**	**(256,827)**
0	Transfers to or (from) Reserves	(70,000)
(1,588,665)	**(Increase) or Decrease in year on the HRA**	**(326,827)**
(9,813,486)	**Balance on the HRA at the end of the current year**	**(10,140,313)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

	2019/20	2018/19
Total Number of Dwellings at 31 March :		
Houses and Bungalows	3,174	3,202
Flats	875	869
	4,049	**4,071**
Change in Stock		
Stock at 1 April	4,071	4,093
Less: Sales – Right to Buy	(39)	(29)
Sales – Other	(2)	0
Disposal/restructuring	0	0
Acquisition – full ownership	14	7
Acquisition – shared ownership	5	0
	4,049	**4,071**

2. RENT ARREARS

	2019/20 £	2018/19 £
Due from Current Tenants	117,327	142,162
Due from Former Tenants	132,647	125,951
Total Rent Arrears as at 31 March	**249,974**	**268,113**
Pre-Payments	(593,023)	(419,017)
Net Arrears	**(343,049)**	**(150,904)**

As at 31 March 2020, the total provision set aside for HRA related bad debts is £0.391m.

3. BALANCE SHEET VALUE OF ASSETS

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Investment Properties	Current Assets Held for Sale	Total
	£	£	£	£	£	£	£	£
Cost or Valuation								
At 1 April 2019	**196,767,700**	**1,030,000**	**207,184**	**731,649**	**198,736,533**	**264,550**	**0**	**199,001,083**
Additions	5,808,612	0	85,554	27,904	**5,922,070**	0	0	**5,922,070**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,742)	(5,000)	0	0	**(7,742)**	0	0	**(7,742)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(629,308)	0	0	0	**(629,308)**	(800)	0	**(630,108)**
Derecognition – disposals	(2,020,200)	0	0	0	**(2,020,200)**	0	0	**(2,020,200)**
Derecognition – other	(142,240)	0	0	0	**(142,240)**	0	0	**(142,240)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	**0**	0	0	**0**
Other movements in cost or valuation	231,168	0	0	(731,649)	**(500,481)**	0	500,481	**0**
As at 31 March 2020	**200,012,990**	**1,025,000**	**292,738**	**27,904**	**201,358,632**	**263,750**	**500,481**	**202,122,863**
Accumulated Depreciation and Impairment								
At 1 April 2019	**(135,820)**	**(15,480)**	**(54,910)**	**0**	**(206,210)**	**0**	**0**	**(206,210)**
Depreciation Charge	(3,908,340)	(15,480)	(29,270)	0	**(3,953,090)**	0	0	**(3,953,090)**
Depreciation written out to the Revaluation Reserve	252,210	30,960	0	0	**283,170**	0	0	**283,170**
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,780,100	0	0	0	**3,780,100**	0	0	**3,780,100**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	**0**	0	0	**0**
Derecognition – disposals	0	0	0	0	**0**	0	0	**0**
Derecognition – other	11,850	0	0	0	**11,850**	0	0	**11,850**
Other movements in depreciation and impairment	0	0	0	0	0	0	0	0
As at 31 March 2020	0	0	(84,180)	0	**(84,180)**	**0**	**0**	**(84,180)**
Net Book Value								
As at 31 March 2020	**200,012,990**	**1,025,000**	**208,558**	**27,904**	**201,274,452**	**263,750**	**500,481**	**202,038,683**
As at 31 March 2019	**196,631,880**	**1,014,520**	**152,274**	**731,649**	**198,530,323**	**264,550**	**0**	**198,794,873**

There is a difference of £297.735m between the tenanted valuation and the District Valuer's Vacant Possession Value of £496.224m at 1 April 2019.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market.

The difference represents the economic cost of the Government providing council housing at less than market rents.

4. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on Council Housing Stock and Infrastructure was financed as follows.

	2019/20 £	2018/19 £
Usable Capital Receipts	390,919	720,722
Revenue Contributions utilised in year	1,668,063	434,473
Major Repairs Allowance	3,700,356	4,252,825
Government Supported borrowing	0	0
Government Grants and Contributions	209,574	96,841
Total Capital Expenditure on Housing Stock	**5,968,912**	**5,504,861**

5. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

	2019/20 £	2018/19 £
Sale of Council Houses under Right to Buy (RTB)	2,402,760	1,602,250
RTB Discounts Repaid	0	0
Other Land & Buildings	157,965	0
Total Capital Receipts from HRA Asset Disposals	**2,560,725**	**1,602,250**
Less Capital Receipts subject to Pooling requirement	(583,690)	(584,513)
Net Capital Receipts from HRA Asset Disposals	**1,977,035**	**1,017,737**

6. HOUSING REPAIRS ACCOUNT

	2019/20 £	2018/19 £
Balance Brought Forward 1 April	25,000	25,000
Expenditure on Capital	0	0
Balance Carried Forward 31 March	**25,000**	**25,000**

Section 8

Collection Fund

Collection Fund

The Collection Fund is a statutory account showing the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution to local authorities and Central Government.

2018/19 Council Tax £000	2018/19 NDR £000	2018/19 Total £000		2019/20 Council Tax £000	2019/20 NDR £000	2019/20 Total £000
			Income:			
(189,801)	0	(189,801)	Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)	(201,825)	0	(201,825)
(42)	0	(42)	Income from Specific Grants	0	0	0
			Transfers from General Fund			
2	0	2	- Transitional relief	2	0	2
(68)	0	(68)	- Discretionary relief	(43)	0	(43)
0	(82,476)	(82,476)	Income collectable from business ratepayers	0	(83,137)	(83,137)
0	(4,037)	(4,037)	Transitional Protection Payments	0	(2,639)	(2,639)
(189,909)	**(86,513)**	**(276,422)**	**TOTAL INCOME**	**(201,866)**	**(85,776)**	**(287,642)**
			Expenditure:			
			Precepts			
153,393	40,310	193,703	- Shropshire Council and Parish and Town Councils	162,638	40,055	202,693
21,499	0	21,499	- West Mercia Police & Crime Commissioner	24,101	0	24,101
10,619	823	11,442	- Shropshire & Wrekin Fire Authority	11,152	817	11,969
0	41,132	41,132	- Central Government	0	40,872	40,872
			Charges to Collection Fund			
0	461	461	- costs of collection	0	457	457
			Bad and doubtful debts			
(100)	(411)	(511)	- write offs	(128)	(205)	(333)
779	502	1,281	- provisions	1,228	583	1,811
			Appeals rates			
0	(1,284)	(1,284)	- write offs	0	(2,002)	(2,002)
0	5,857	5,857	- provisions	0	3,255	3,255
			Contributions			
2,784	(5,496)	(2,712)	- Towards previous year's estimated Collection Fund surplus/(deficit)	3,666	(560)	3,106
188,974	**81,894**	**270,868**	**TOTAL EXPENDITURE**	**202,657**	**83,277**	**285,929**
(935)	**(4,619)**	**(5,554)**	**Deficit/(Surplus) for the Year**	**791**	**(2,504)**	**(1,713)**
(2,666)	5,633	2,967	Balance brought forward	(3,601)	1,014	(2,587)
(3,601)	**1,014**	**(2,587)**	**Balance carried forward**	**(2,810)**	**(1,490)**	**(4,300)**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2019/20 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	25.13	5/9	13.96
A	17,438.14	6/9	11,625.43
B	29,104.45	7/9	22,636.80
C	25,686.17	8/9	22,832.15
D	18,797.41	9/9	18,797.41
E	14,744.06	11/9	18,020.52
F	7,841.32	13/9	11,326.35
G	4,253.58	15/9	7,089.29
H	269.67	18/9	539.34
			112,881.25
Adjustment for MoD Properties (629.06 Band D Equivalents) and Collection Rate (98.0%)			(1,641.15)
			111,240.10

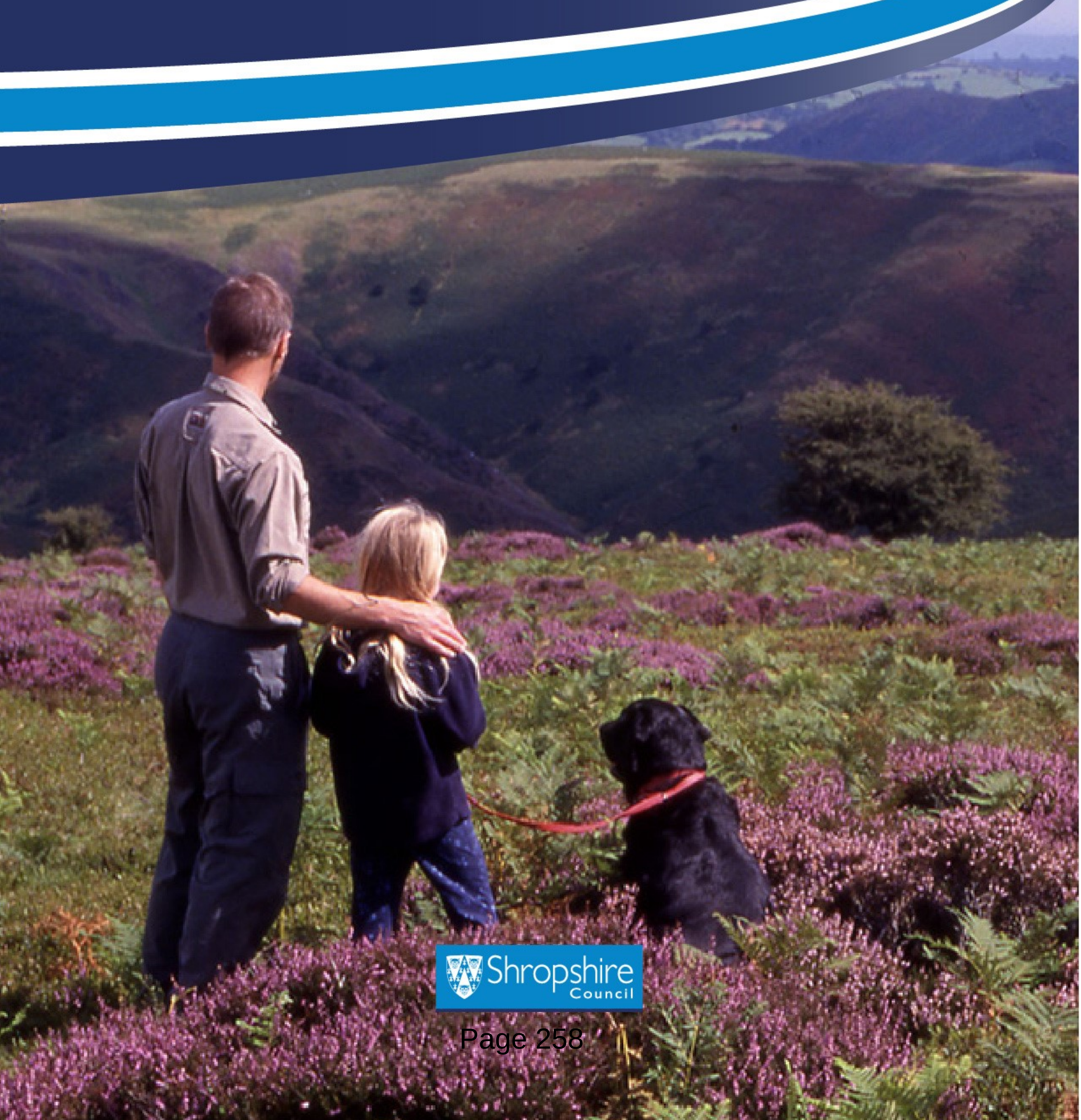
2. NON-DOMESTIC RATES (BUSINESS RATES)

Shropshire Council is the billing authority for NDR and retains 49% share of the total collected and distributes the remaining balance to Central Government (50%) and Shropshire & Wrekin Fire Authority (1%).

At 31 March 2020, the total non-domestic rateable value for all business premises in Shropshire was £235,336,751. The multiplier set by Government to calculate rate bills in 2019/20 was 49.1p for small businesses and 50.4p for all other businesses.

Section 9

Pension Fund Accounts



Introduction

For the first time since 2015/16 the Shropshire Fund decreased in value by £84 million in 2019/20 to be valued at £1.831 billion at the end of the year. The Fund decreased in value by 3.8% over the year and underperformed against its benchmark by 1.0%. Up until December 2019 the Fund had been performing very strongly and was valued at over £2 billion for the first time. The global pandemic, in the last quarter of the financial year, had a major impact on financial markets across the world and this resulted in the fund value falling by £185 million in a single quarter. In the new financial year the fund has increased to £1.960 billion, mainly due to a recovery in stock markets since the end of March.

Over the last three years the fund returned 1.5% per annum which was 1.2% below benchmark. The reason fund performance was below benchmark for this year was largely due to market volatility, specifically in March driven by Covid-19 implications which had a major impact on financial markets and saw equity markets decline globally. The below benchmark returns generated from the Fund’s active UK and global equity managers during the last financial year was the main reason for the underperformance. The combined fixed income portfolios also delivered below benchmark returns during the year again because of the impact of the global pandemic during the last quarter.

The Shropshire Fund had positive investment returns in a number of other asset classes which helped offset some of the underperformance of equities. The strongest returns were generated in private equity increasing in value by 19.5%. The fund’s Infrastructure manager produced returns of 11.2% which was 3.4% above benchmark and BMO (our LDI manager) produced positive returns of 2.8% which was 2.4% above target. The property debt portfolio also increased in value by 4.7%. The combined fixed income portfolios delivered a negative return of 1.1% which was 2.4% below benchmark. The fund’s UK equity manager produced negative returns of 21.4% and the active global equity portfolio produced negative returns of 9.6%. It was these equity returns that are the main reason for the decrease in value of £84 million during the year.

The Pensions Committee determine the strategic asset allocation for the fund. This outlines the proportion of assets that the fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the fund.

The Pensions Committee undertakes thorough monitoring of the fund’s investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities.

The fund undergoes an independent actuarial valuation every 3 years. The last actuarial valuation was conducted at the end of March 2019, identifying that the fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 94% which was an increase from 84% at the previous valuation in March 2016. As a local government pension scheme the fund is able to take a long-term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way, the latest results were very positive for the fund where the funding level increased by 10% over the valuation period.

During 2019/20, Aon Hewitt undertook a review of the movements in the funding level since the last valuation and presented the results to the Pension Committee.

Due to a strong rally in equity markets over the previous three financial years, this resulted in a significant increase in the asset value of the fund. In view of this, as a large proportion of the fund is invested in equities and this represents the biggest risk within the fund, a decision was made to increase the level of equity protection currently in place from £280 million to £580 million of the fund during the year. This decision was of significant importance especially at the end of the financial year when equity markets saw big falls due to Covid-19. Despite the fall in markets, this decision resulted in saving the fund over £70 million in the last quarter of the financial year.

The fund became a Tier 1 signatory to the Stewardship Code during the year, the highest rating given by the Financial Reporting Council, which is very positive news. This confirms how seriously the fund continues to take Responsible Investment and Environmental, Social and Governance issues.

The Shropshire Fund continued to work with eight other funds in the Midlands region during the year. LGPS Central Ltd has been established to manage investment assets on behalf of its nine Local Government Pension Scheme (LGPS) funds across the Midlands region. It is a multi-asset manager, investing up to potentially £45 billion of assets from 2018 onwards (£18.5 billion invested as at March 2020), on behalf of 900,000 LGPS members and 2,500 employers.

LGPS Central Ltd is jointly owned on an equal share basis by eight pension funds and is a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The participating pension funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. West Midlands Integrated Transport Authority (ITA) Pension fund will also be an investor, but not a shareholder, with its shareholder rights represented by West Midlands

The key objectives of LGPS Central will be to deliver cost savings and improve risk adjusted investment returns after cost, enable access to a wider range of asset classes for the participating pension funds, and to ensure good governance. LGPS Central will manage a wide range of asset classes, employing a mix of internal and external investment management. The company is a private company limited by shares and was incorporated on 13 October 2016. The majority of assets under management will be structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures. The company has been formed to act as an Alternative Investment Fund Manager (AIFM) to allow the participating LGPS administering authorities to pool their respective investments.

The governance structure for LGPS Central has been agreed by all partner funds. The LGPS Central Board and Executive Committee are in place. There are currently 62 permanent staff with further recruitment to come over the course of 2020. Regular investment pooling meetings continue to be held with representatives from each of the eight LGPS funds. The Practitioners Advisory Forum, which is made up of s151 Officers and Pension Managers from each fund, are updated regularly on the progress made and key developments of LGPS Central. Meetings of the Shareholders Forum, which is made up of one elected member from each fund, have been held during the year to approve key decisions. The Joint Committee, which is also made up of one elected member from each fund, has also met twice during the year to discuss any client related investors issues.

LGPS Central Ltd opened for business on the 3 April 2018 with the launch of 3 new pooled funds. In addition to these funds, LGPS Central is responsible for a number of advisory and discretionary mandates on behalf of its partner funds. Working with our partners to develop and implement our investment strategy will continue to be a major strategic focus for the fund over the next year. The first assets transferred from Shropshire County Pension Fund in March 2019 when £237 million was transitioned into their active global equity sub-fund.

Over the last 12 months The Pensions Administration Team have kept busy ensuring the benefits it looks after for scheme members are paid accurately and on time. To effectively administer the Local Government Pension Scheme for members, the monthly data provided by employers is essential. As well as monthly and year-end data quality verification, additional checks were put in place by the team during the year using mortality screening and address verification to continue to improve the data held. The guaranteed minimum pension reconciliation/rectification exercise continued throughout the year and the upgrade to the member self-service platform ‘My Pension Online’ was completed. Training of employers continued with an employer’s meeting held in November 2019 to communicate the actuarial valuation results. Online webinars were used for the first time to provide information to staff working at scheme employers. The year ended with the pandemic lockdown on 23 March 2020. Pension team members were able to work from their own homes instantly and carry on delivering pension services with very little disruption to fund members. New practices were put in place to ensure business as usual could continue. In line with advice from the Regulator, priority was given to ensuring benefits for retirements and deaths were processed on time and fund members were supported to make good decisions about their benefits.

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

2018/19 £000		2019/20 £000
	Income	
	Contributions	
(44,402)	Employers (Note 7)	(46,626)
(14,728)	Employees (Note 7)	(15,706)
(6,350)	Transfers In from other pension funds (Notes 3, 7)	(6,460)
(65,480)	**Total Income**	**(68,792)**
	Expenditure	
	Benefits Payable	
59,051	Pensions (Note 7)	62,251
9,366	Commutation of pensions and lump sum retirement benefits (Note 7)	10,620
1,661	Lump Sum Death Benefits (Note 7)	1,425
	Payment to & Account of Leavers	
191	Refund of contributions (Note 7)	224
8,060	Transfers to other funds (Notes 3, 7)	4,896
78,329	**Total Expenditure**	**79,416**
12,849	**Net (additions) / withdrawals from dealings with scheme members**	**10,624**
13,975	**Management Expenses (Note 8)**	**17,712**
	Returns on Investments	
(25,788)	Investment Income (Notes 3, 9)	(28,402)
(12,614)	(Gain)/loss on cash and currency hedging	(13,203)
412	Taxes on Income (Note 10)	124
(70,319)	(Profits) and losses on disposal of investments and changes in value of investments (Note 11a)	97,123
(108,309)	**Net (increase) / decrease in the net assets available for benefits during the year**	**55,642**
(81,485)	**(Surplus) / deficit on the pension fund for the year**	**83,978**
1,833,816	**Opening net assets of the scheme**	**1,915,301**
1,915,301	**Closing net assets of the scheme**	**1,831,323**

PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2020

31-Mar-19 £000		31-Mar-20 £000	%
	Long Term Investments		
1,315	Equities (Note 11b)	1,315	0.07
	Investment Assets		
125,939	Equities (Note 11b)	77,746	4.25
	Pooled Investment Vehicles		
1,667,601	Other Managed Funds (Note 11b)	1,726,527	94.28
	Other Investment Balances		
685	Loans (Note 11b)	685	0.04
	Cash Deposits		
115,796	Deposits (Note 11a)	18,650	1.02
2,000	Temporary Investments (Note 27)	2,000	0.11
1,913,336	**Total Investment Assets**	**1,826,923**	**99.77**
	Current Assets		
2,407	Contributions due from Employers (Note 18)	5,205	0.28
1,583	Other Current Assets (Note 18)	1,708	0.09
987	Cash Balances (Note 27)	397	0.02
	Current Liabilities		
(243)	Unpaid Benefits (Note 19)	(172)	(0.01)
(2,769)	Other Current Liabilities (Note 19)	(2,738)	(0.15)
0	Cash Balances (Note 27)	0	0
1,915,301	**Net Assets of the Scheme – Available to Fund Benefits as at 31 March**	**1,831,323**	**100.00**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Actuary Statement.

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1. DESCRIPTION OF FUND

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 207 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

Shropshire County Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	148	151
Number of employees in the scheme		
Shropshire Council	5,916	6,066
Other employers	10,718	10,274
Total	**16,634**	**16,340**
Number of pensioners in the scheme		
Shropshire Council	5,431	5,220
Other employers	5,664	5,507

Shropshire County Pension Fund	31 March 2020	31 March 2019
Total	**11,095**	**10,727**
Number of deferred pensioners in the scheme		
Shropshire Council	8,644	8,667
Other employers	9,447	9,246
Total	**18,091**	**17,913**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2019. Currently, employer contribution rates range from 6.9% to 28.0% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, ill-health pensions and death benefits.

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

There were no significant changes to the CIFPA Code of Practice on Local Authority accounting, the key change in International Financial Reporting Standards was the adoption of IFRS9 Accounting Standard for the 2018/19 accounts but additional changes were required for 2019/20 accounts. IFRS9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS9 had little impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the code. As a consequence, there was no requirement to change the measurement or classification of these assets.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information within the statement by the consulting actuary.

The accounts have been prepared on a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

Contribution income
Normal contributions are accounted for on an accruals basis as follows:
- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Transfers to and from other schemes
Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 7). Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

Investment Income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

Fund account – expense items

Benefits payable
Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, provided that payment has been approved.

Taxation
The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains

tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

Administrative expenses	All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
Oversight and governance	All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
Investment management expenses	Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 8 and grossed up to increase the change in value of investments. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition, the Fund has negotiated with Majedie Asset Management, Pimco Europe Ltd and BlackRock (Hedge Fund) that an element of their fee will be performance related. Total performance related fees for all managers in 2019/20 £0.225m (2018/19 £0.185m). Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, £0.122m of fees is based on such estimates (2018/19 £0.100m).

Net Assets Statement

Financial assets

The Share Capital investment in LGPS Central Limited is valued at transaction price i.e. cost. LGPS Central Limited began to trade on 3 April 2018 and consequently there are only limited trading results available. The Pension Fund's view is that the market value of this investment at 31 March 2020 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 14).

Foreign Currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Loans and receivables
Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

Financial liabilities.
A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

Additional voluntary contributions
Shropshire County Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. Please see note 20 for further information.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability
The net pension fund liability is recalculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the Actuary and have been summarised in note 17.

Investment in LGPS Central
The Share Capital investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reliably estimated. Management have made this judgment because:

- LGPS Central Limited did not commence trading until 3 April 2018
- No dividend to shareholders has as yet been declared
- Published trading results are only available for one year, which in the Fund's opinion does not give sufficient information to allow fair value to be accurately calculated on a net asset basis.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £119.9 million. There is a risk that this investment may be under or overstated in the accounts.
Hedge Funds	Hedge funds are valued at the sum of the fair values of the underlying sub-funds plus any adjustment that the custodian or fund manager considers necessary. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £118.0 million. There is a risk that this investment may be under or overstated in the accounts.

6. EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2020, and when these accounts were authorised, that require any adjustments to be made.

7. ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

2019/20	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000

2019/20	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contributions Received				
Employees	5,607	2,057	8,042	15,706
Employers	13,885	6,812	25,929	46,626
Transfers In	2,472	1,019	2,969	6,460
Total Income	**21,964**	**9,888**	**36,940**	**68,792**
Payments Made				
Pensions	35,938	7,675	18,638	62,251
Lump Sums	4,449	1,984	4,187	10,620
Death Benefits	533	445	447	1,425
Refunds	59	23	142	224
Transfers Out	2,196	586	2,114	4,896
Total Expenditure	**43,175**	**10,713**	**25,528**	**79,416**

2018/19 comparative figures	Administering Authority £000	Admission Bodies £000	Designation Bodies/Scheme Employers £000	Total £000
Contributions Received				
Employees	5,626	1,995	7,107	14,728
Employers	14,691	6,452	23,259	44,402
Transfers In	2,791	303	3,256	6,350
Total Income	**23,108**	**8,750**	**33,622**	**65,480**
Payments Made				
Pensions	34,439	7,470	17,142	59,051
Lump Sums	4,124	1,859	3,383	9,366
Death Benefits	990	211	460	1,661
Refunds	62	12	117	191
Transfers Out	2,457	1,072	4,531	8,060
Total Expenditure	**42,072**	**10,624**	**25,633**	**78,329**

This table shows a breakdown of the employers contributions above:

	2019/20 £000	2018/19 £000
Employers normal contributions	36,630	34,404
Employers deficit contributions	8,177	7,642
Employers augmentation contributions	1,819	2,356
	46,626	**44,402**

8. MANAGEMENT EXPENSES

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Management Expenses	2019/20 £000	2018/19 £000
Administrative costs	1,050	1,327
Investment management expenses	15,283	11,537
Oversight and governance costs	1,379	1,111
	17,712	13,975

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Funds behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled fund investments.

The investment management expenses shown below includes £0.225m (2018/19 £0.185m) in respect of performance related fees paid/payable to the Fund's investment managers.

It also includes £2.561m in respect of transaction costs (2018/19 £0.612m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of Investments (see note 11a).

Investment Expenses	2019/20 £000	2018/19 £000
Management Fees	9,052	8,423
Performance Fees	225	185
Other Fees	3,414	2,257
Transaction Costs	2,561	612
Custody Fees	31	60
	15,283	11,537

The costs incurred by the Council in administering the Fund totalled £1.050m for the year ended 31 March 2020 (2018/19 £1.327m).

Administrative Costs	2019/20 £000	2018/19 £000
Employee Costs	682	742
IT	210	323
Consultants	32	137
Printing, Postage & Design	61	45
Office Accommodation	20	26
Subscriptions	16	15
Other Costs	29	39
	1,050	1,327

The costs incurred by the Council in Oversight and Governance totalled £1.379m for the year ended 31 March 2020 (2018/19 £1.111m)

Oversight & Governance costs	2019/20 £000	2018/19 £000
Investment advice	386	362
Employee costs (pensions investment)	190	167
Actuarial advice	154	9
LGPS Central Pooling costs	475	432
Responsible engagement overlay	65	51
External audit	20	20
Performance analysis	29	25
Internal audit	19	17
Legal & Committee	16	16
Other Costs	25	12
	1,379	**1,111**

9. INVESTMENT INCOME

The table below analyses the investment income received by the Fund over the last 12 months.

	2019/20 £000	2018/19 £000
Dividends from equities	(5,493)	(7,983)
Income from pooled investment vehicles	(8,621)	(6,714)
Interest on cash deposits	(53)	(59)
Other	(14,235)	(11,032)
	(28,402)	**(25,788)**

10. TAXES ON INCOME

This table breaks down the taxes on income by asset class.

	2019/20 £000	2018/19 £000
Withholding tax – Fixed interest securities	0	0
Withholding tax – equities	26	326
Withholding tax – pooled	98	86
	124	**412**

11a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

Investment type 2019/20	Value as at 1 April £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Transition £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Equities	127,254	48,977	(70,459)			(26,711)	*79,061
Pooled Investment Vehicles – Other Managed Funds	1,667,601	207,214	(69,239)		(8,595)	(70,454)	*1,726,527
Other Investment Balances	685						685
Sub total	**1,795,540**	**256,191**	**(139,698)**	**0**	**(8,595)**	**(97,165)**	**1,806,273**
Cash deposits – with Managers	115,796		(44)		(97,145)	43	18,650
Temporary Investments	2,000						2,000
Total	**1,913,336**	**256,191**	**(139,742)**	**0**	**(105,740)**	****(97,122)**	**1,826,923**

* Within the Pooled Investment Vehicles - other managed funds total of £1726.527m are £306.361m of level 3 investments as at 31 March 2020. Within the Equities figure of £79.061m are £1.315m of level 3 investments as at 31 March 2020. The value of the level 3 investments was £274.472m as at 1st April 2019 which increased to £307.676m as at 31 March 2020. The increase in value is due to purchases of £47.266m, sales of £14.796m and change in market value of £0.734m.

** The total change in market value for 2019/20 as per the table above is -£97.122m. This figure is made of up of profit on sales of £7.988m and also the difference between book cost and market value for the whole Fund which for 2019/20 was -£105.110m.

Investment type 2018/19 comparative figures	Value as at 1 April £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Transition £000	Other cash transactions £000	Change in market value £000	Value as at 31 March £000
Equities	264,509	66,532	(127,185)	(74,227)		(2,375)	*127,254
Pooled Investment Vehicles – Other Managed Funds	1,532,234	345,061	(361,052)	74,227	4,446	72,685	*1,667,601
Other Investment Balances	685						685
Sub total	**1,797,428**	**411,593**	**(488,237)**	**0**	**4,446**	**70,310**	**1,795,540**
Cash deposits – with Managers	33,081		(21)		82,728	8	115,796
Temporary Investments	2,000						2,000
Total	**1,832,509**	**411,593**	**(488,258)**	**0**	**87,174**	****70,318**	**1,913,336**

* Within the Pooled Investment Vehicles - other managed funds total of £1667.601m are £273.157m of level 3 investments as at 31 March 2019. Within the Equities figure of £127.254m are £1.315m of level 3 investments as at 31 March 2019. The value of the level 3 investments was £203.217m as at 1st April 2018 which increased to £274.472m as at 31 March 2019. The increase in value is due to purchases of £77.216m, sales of £14.297m and change in market value of £8.336m.

** The total change in market value for 2018/19 as per the table above is £70.318m. This figure is made of up of profit on sales of £209.405m and also the difference between book cost and market value for the whole Fund which for 2018/19 was -£139.087m.

11b. ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVE CONTRACTS)

	2019/20 £000	2018/19 £000
Equities		
UK		
Unquoted	1,315	1,315
Quoted	68,684	110,599
Overseas		
Quoted	9,062	15,340
Total Equities	**79,061**	**127,254**
Pooled Funds – additional analysis		
UK		
Unit Trusts	5,338	9,621
Property Debt	36,928	18,729
Overseas		
Unit Trusts	1,252,577	1,217,538
Hedge Funds	117,950	126,304
Pooled property investments	85,290	94,784
Private Equity	119,887	96,989
Infrastructure Linked Securities	31,596	31,135
Infrastructure	76,961	72,501
Total Pooled Funds	**1,726,527**	**1,667,601**
Other Investment Balances		
Loans	685	685
Total	**1,806,273**	**1,795,540**

12. STOCK LENDING

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collateralised lending generated income of £0.016m in 2019/20 and this is included within investment income in the Pension Fund Account. At 31 March 2020 £2.913m worth of stock (via the Custodian) was on loan, for which the Fund was in receipt (via the Custodian) of £3.132m worth of collateral representing 108% of stock on loan.

Although stock lending involves the transfer of title of those securities to the borrower, the lender's rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic interest in the securities transferred. During the period stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

13. ANALYSIS OF DERIVATIVES

The Fund previously passively hedged 50% of all currency exposure to eliminate some of the risks over the longer term involved in holding an increased proportion of overseas investments. Currently, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling. The global equity passive portfolio also has an equity protection strategy in place.

14. FAIR VALUE – BASIS OF VALUATION

Unquoted equities in LGPS Central are valued at cost, i.e. transaction price, as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2020 because the main trading vehicle LGPS Central Limited only became licensed to trade on 3 April 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Infrastructure	Level 2	Valued at the net asset value or a single price advised by the fund manager	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts
Private Equity, Property Debt,	Level 3	Valued based on the Fund's share of the net assets in the fund or	EBITDA multiple, revenue multiple, discount for lack of	Valuations could be affected by post balance sheet

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Insurance Linked & Unquoted Equity		limited partnership using the latest financial statements in accordance with the International Private Equity and Venture Capital guidelines 2012 or other appropriate guidelines	marketability, control premium	events, changes to expected cashflows, or by any differences between audited and unaudited accounts
Hedge Funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Valuations are affected by any changes to the value of the financial instrument being hedged against

Sensitivity of assets valued at level 3

The table below sets out the assets which have been categorised at level 3. The figures have been derived using the valuation methods adopted by each of the relevant investment managers and are assumed to be accurate. The table also sets out the consequential potential impact on the closing value of investments if these valuations were inaccurate, based on an indicative movement of 5% on the value of investments held as at 31 March 2020.

Asset	Assessed valuation range (=/-)	Value as at 31-Mar-20 £000	Value on increase £000	Value on decrease £000
Private Equity	5%	119,887	125,881	113,893
	5%	117,950	123,848	112,052
	5%	31,596	33,176	30,016
	5%	36,928	38,774	35,082
Unquoted UK Equity	5%	1,315	1,381	1,249
Total		**307,676**	**323,060**	**292,292**

14a. FAIR VALUE HIERARCHY

Asset and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.

Level 2 - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 - where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly, however, lag a quarter behind so the valuation in the accounts is as at 30th September 2019. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Asset type 2019/20	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
Equities	Majedie Asset Management	UK Equities	77,742	77,742		
	LGPS Central Ltd*	UK Equities (unquoted)	1,315			1,315
Pooled Investment Vehicles	Majedie Asset Management	UK Pooled Fund	5,338	5,338		
	Pimco Europe Ltd	Global Aggregate Bonds	137,126	137,126		
	HarbourVest Partners Ltd	Private Equity	119,887			119,887
	Aberdeen Property Investors	Property Unit Trusts	85,290		85,290	
	Blackrock	Hedge Fund	117,950			117,950
	Global Infrastructure Partners	Infrastructure	76,961		76,961	
	Legal & General	Global Equities	559,961	559,961		
	Blackrock	Fixed Interest	135,629	135,629		
	T Rowe Price	Global Dynamic Bonds	138,121	138,121		
	BMO	LDI	66,806	66,806		
	Securis	Insurance Linked Securities	31,596			31,596
	DRC	Property Debt	36,928			36,928
	LGPS Central Ltd	Global Equities	214,934	214,934		

Asset type 2019/20	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
Net Current Assets (incl cash & other)			25,739	25,739		
Total			**1,831,323**	**1,361,396**	**162,251**	**307,676**

Asset type 2018/19	Investment Manager	Investment Type	Market Value £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant evaluation inputs Level 3 £000
Equities	Majedie Asset Management	UK Equities	125,932	125,932		
	LGPS Central Ltd*	UK Equities (unquoted)	1,315			1,315
Pooled Investment Vehicles	Majedie Asset Management	UK Pooled Fund	9,621	9,621		
	Pimco Europe Ltd	Global Aggregate Bonds	145,309	145,309		
	HarbourVest Partners Ltd	Private Equity	96,989			96,989
	Aberdeen Property Investors	Property Unit Trusts	94,784		94,784	
	Blackrock	Hedge Fund	126,304			126,304
	Global Infrastructure Partners	Infrastructure	72,501		72,501	
	Legal & General	Global Equities	601,716	601,716		
	Blackrock	Fixed Interest	140,558	140,558		
	GAM	Absolute Return Bonds	15,571		15,571	
	BMO	LDI	76,646	76,646		
	Securis	Insurance Linked Securities	31,135			31,135
	DRC	Property Debt	18,729			18,729
	LGPS Central Ltd	Global Equities	237,737	237,737		
Net Current Assets (incl cash)			120,454	120,454		
Total			**1,915,301**	**1,457,973**	**182,856**	**274,472**

* Share Capital investment in LGPS Central Ltd has been carried at cost

15. FINANCIAL INSTRUMENTS

15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	31 March 2020 Fair value through profit & loss £000	31 March 2020 Loans & receivables £000	31 March 2020 Financial liabilities at amortised cost £000	31 March 2019 Fair value through profit & loss £000	31 March 2019 Loans & receivables £000	31 March 2019 Financial liabilities at amortised cost £000
Investment Assets						
Equities	1,315			1,315		
Financial Assets						
Equities	77,746			125,939		
Pooled Investment Vehicles – Other Managed Funds	1,726,527			1,667,601		
Other Investment Balances - Loans		685			685	
Cash		21,047			118,783	
Debtors		6,913			3,990	
Total Assets	**1,805,588**	**28,645**	**0**	**1,794,855**	**123,458**	**0**
Financial Liabilities						
Creditors			(2,910)			(3,012)
Total Liabilities	**0**	**0**	**(2,910)**	**0**	**0**	**(3,012)**
Total	**1,805,588**	**28,645**	**(2,910)**	**1,794,855**	**123,458**	**(3,012)**

15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2019/20 £000	2018/19 £000
Financial Assets		
Fair value through profit and loss	(97,123)	70,319
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
	(97,123)	**70,319**

16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis and manage any identified risk in two ways:

- The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis
In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period, assuming that all other variables, in particular foreign exchange rates and interest rates remain the same.

Asset Type	Potential market movements (+/-)
UK Equities	19.0%
Global Unconstrained Equities	21.2%
Global Equities (passive)	20.0%
Unconstrained bonds	5.5%
Property	17.0%
Private Equity	28.5%

Asset Type	Potential market movements (+/-)
Hedge Funds	9.5%
Infrastructure	19.5%
Property Debt	8.5%
Insurance Linked Securities	4.5%
LDI	30.8%

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset type 2019/20	Value as at 31 March 2020 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash and Other	27,050	0	27,050	27,050
Investment Portfolio Assets				
UK Equities	74,022	14,064	88,086	59,958
Global Equities (unconstrained)	223,996	47,487	271,483	176,509
Global Equities (passive)	559,961	111,992	671,953	447,969
Unconstrained Bonds	410,876	22,598	433,474	388,278
Property	85,290	14,499	99,789	70,791
Private Equity	119,887	34,168	154,055	85,719
Hedge Funds	117,950	11,205	129,155	106,745
Infrastructure	76,961	15,007	91,968	61,954
Property Debt	36,928	3,139	40,067	33,789
Insurance Linked Securities	31,596	1,422	33,018	30,174
LDI	66,806	20,576	87,382	46,230
Total assets available to pay benefits	**1,831,323**	**296,157**	**2,127,480**	**1,535,166**

Asset type 2018/19	Value as at 31 March 2019 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Net Assets including Cash and Other	121,761	0	121,761	121,761
Investment Portfolio Assets				
UK Equities	120,220	22,842	143,062	97,378
Global Equities (unconstrained)	253,077	52,134	305,211	200,943
Global Equities (passive)	601,716	120,343	722,059	481,373
Unconstrained Bonds	301,439	18,086	319,525	283,353
Property	94,784	16,113	110,897	78,671
Private Equity	96,989	26,672	123,661	70,317
Hedge Funds	126,304	11,999	138,303	114,305
Infrastructure	72,501	13,775	86,276	58,726
Property Debt	18,729	1,498	20,227	17,231
Insurance Linked Securities	31,135	1,090	32,225	30,045
LDI	76,646	24,067	100,713	52,579
Total assets available to pay benefits	**1,915,301**	**308,619**	**2,223,920**	**1,606,682**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2020 £000	As at 31 March 2019 £000
Cash and cash equivalents	9,692	115,432
Cash balances	397	987
Bonds	410,876	301,439
Total change in assets available	**420,965**	**417,858**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates assuming all variables, in particular exchange rates, remain constant.

Assets exposed to interest rate risk	Value as at 31 March £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
As at 31 March 2020				
Cash and cash equivalents	9,692	0	9,692	9,692
Cash balances	397	0	397	397
Bonds	410,876	4,109	414,985	406,767
Total	**420,965**	**4,109**	**425,074**	**416,856**

Assets exposed to interest rate risk	Value as at 31 March £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
As at 31 March 2019				
Cash and cash equivalents	115,432	0	115,432	115,432
Cash balances	987	0	987	987
Bonds	301,439	3,014	304,453	298,425
Total	**417,858**	**3,014**	**420,872**	**414,844**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

During 2019/20 the Fund received £0.017m in interest from surplus pension fund revenue cash. This was either invested in call accounts which are classified as a variable rate investment or a fixed term deposit. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.031m. The impact of a 1% fall in interest rates would therefore imply a negative interest rate and therefore it is assumed no interest would have been received or charged on these investments. In addition, the Fund earned £0.036m in interest on its loan to LGPS Central Ltd. The impact of a 1% change in interest rates would have increased or decreased interest earned on this loan by £0.007m.

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investments assets not denominated in UK sterling.

Currency exposure – asset type	As at 31 March 2020 £000	As at 31 March 2019 £000
Overseas Equities	209,188	229,635
Overseas Pooled Fixed Interest	0	0
Overseas Private Equity	119,887	96,989
Overseas Pooled Property	2,257	9,184
Overseas Infrastructure	76,961	72,501
Total change in assets available	**408,293**	**408,309**

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. An 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 March £000	Potential market movement £000	Value on increase £000 10%	Value on decrease £000 10%
As at 31 March 2020				
Overseas Equities	209,188	20,919	230,107	188,269
Overseas Fixed Interest	0	0	0	0
Overseas Private Equity	119,887	11,989	131,876	107,898
Overseas Pooled Property	2,257	226	2,483	2,031
Overseas Infrastructure	76,961	7,696	84,657	69,265
Total change in assets available	**408,293**	**40,830**	**449,123**	**367,463**

Assets exposed to currency risk	Value as at 31 March £000	Potential market movement £000	Value on increase £000 11%	Value on decrease £000 11%
As at 31 March 2019				
Overseas Equities	229,635	25,260	254,895	204,375
Overseas Fixed Interest	0	0	0	0
Overseas Private Equity	96,989	10,669	107,658	86,320

Assets exposed to currency risk	Value as at 31 March £000	Potential market movement £000	Value on increase £000 11%	Value on decrease £000 11%
Overseas Pooled Property	9,184	1,010	10,194	8,174
Overseas Infrastructure	72,501	7,975	80,476	64,526
Total	**408,309**	**44,914**	**453,223**	**363,395**

Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle a transaction in a timely manner. The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions.

The investment priorities for the management of the pension fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction of minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

The Pension Fund has had no experience of default or uncollectable deposits over the past five financial years.

Asset type	Rating	As at 31 March 2020 £000	As at 31 March 2019 £000
Handelsbanken Instant Access Account	AA	2,000	2,000
Total		**2,000**	**2,000**

Credit risk may also occur if an employing body not supported by Central Government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. All contributions due at 31 March 2020 and 31 March 2019 were received in the first two months of the financial year.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £2.0m (31 March 2019 £2.0m).

The Fund has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2020 was £4.446m. The Fund does not have access to an overdraft facility.

Officers prepare a daily cash flow forecast to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the investment strategy.

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where it considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (84% at the March 2016 valuation). This corresponded to a deficit of £132 million (2016 valuation was £278 million) at that time. Revised contributions set by the 2019 valuation will be introduced in 2020/21 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 16.6% of pensionable pay (14.9% at the March 2016 valuation).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions	31 March 2019	31 March 2016
Discount rate	4.25% p.a.	4.55% p.a.
Assumed long term CPI inflation	2.4% p.a.	2.2% p.a.
Salary increases – long term	3.65% p.a.	3.7% p.a.
Salary increases – short term	No allowance	1% p.a. for 4 years
Pension increases in payment	2.4% p.a	2.2% p.a

The assumed life expectancy from age 65 is as follows:

Demographic assumptions		31 March 2019	31 March 2016
Current pensioners (at age 65)	Males	22.8	22.9
	Females	24.9	26.1
Future pensioners (assumed current age 45)	Males	24.1	25.1
	Females	26.6	28.4

It is assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement.

18. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2020. An analysis of debtors outstanding as at 31 March 2020 is shown below:

	2019/20 £000	2018/19 £000
Contributions due - employees	1,186	613
Contributions due - employers	4,019	1,794
Other entities and individuals	1,708	1,583
Total	**6,913**	**3,990**

19. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2020. An analysis of creditors outstanding as at 31 March 2020 is shown below:

	2019/20 £000	2018/19 £000
Central Government bodies	(615)	(604)
Other Local Authorities	(1,309)	(1,541)
Other entities and individuals	(986)	(867)
Total	**(2,910)**	**(3,012)**

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Scheme members have the option to make Additional Voluntary Contributions (AVC's) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 501 scheme members with AVC policies. These policies are held either by Utmost or Prudential.

During 2019/20 contributions to the schemes amounted to £0.611m. The combined value of the AVC funds as at 31 March 2020 was estimated at £4.983m.

21. RELATED PARTY TRANSACTIONS

Shropshire Council
The Shropshire County Pension Fund is administered by Shropshire Council. Shropshire Council incurred costs of £1.339m (2018/19 £1.559m) in relation to the administration of the Fund and all these costs were recharged to the Pension Fund.

Shropshire Council is also the single largest employer of members of the Pension Fund. At the year end, a balance of £1.704m was due to the Fund from the Council relating to early retirement costs and also contributions which became due in March but were paid in April. The Scheme Administrator of the Shropshire County Pension Fund is also the Director of Finance, Governance & Assurance for Shropshire Council.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Director of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Under the Local Government Pension Scheme 1997 Regulations, Councillors were entitled to join the scheme. Legislation which came into force on 1 April 2014 meant the LGPS was only available to councillors and elected mayors of an English County Council or District Council who elected to join before 31 March 2014. From 1 April 2014 access to the LGPS for councillors was removed and those councillor members who were in the Scheme on the 31 March 2014 could only remain in the Scheme until the end of their current term of office. The remaining active councillor members were removed from the Scheme in May 2017 at the end of their individual office. All councillor members who sit on the Pension Fund Committee who joined the LGPS before 31 March 2014 are now either deferred or pensioner members of the Fund.

LGPS Central

LGPS Central (LGPSC) has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPSC Pool.

The Fund invested £1.315m in share capital and £0.685m in a loan to LGPSC in 2017/18. These remain the balances at 31 March 2020. The Fund was owed interest of £0.036m on the loan to LGPSC at 31 March 2020.

In addition, in March 2019, the Fund invested in the LGPSC Global Equity sub-fund. The Fund incurred direct costs totalling £1.808m in respect of this investment of which £0.002m was payable to LGPSC at 31 March 2020.

The Fund incurred costs totalling £0.475m in respect of Governance, Operator Running and Product Development in connection with LGPSC in 2019/20 of which £0.098m was payable to LGPSC at 31 March 2020.

21.a KEY MANAGEMENT PERSONNEL

The posts of Director of Finance, Governance and Assurance (s151 Officer and Scheme Administrator) and Head of Treasury and Pensions are deemed to be key management personnel with regards to the fund. The financial value of their relationship with the fund (in accordance with IAS24) is set out below:

	2019/20 £000	2018/19 £000
Short-term benefits*	108	86
Post employment benefits**	63	70
Total	**171**	**156**

* This is the Pension Fund's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

** This is the change in value of accrued pension benefits, expressed as cash equivalent transfer value

22. CONTRACTUAL COMMITMENTS

The Fund has a 5% (£92 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2020 £295m has been committed to investment in private equity via a fund of funds manager (HarbourVest Partners). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2020 the funds Private Equity investments totalled £119.887m.

23. CONTINGENT ASSETS

14 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

24. VALUE ADDED TAX

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

25. CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodian's own assets.

26. FUND AUDITORS

Grant Thornton has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

27. PENSION FUND BANK ACCOUNT

Since April 2010 all income received for the Pension Fund has been paid into a separate pension fund bank account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2020 £2.0 million was invested. The cash balance in the Pension Fund account as at the same date was £0.397m.

28. FUND STRUCTURE UPDATE

In September 2017, an equity protection strategy was implemented with Legal & General, one of the Fund's existing managers. The strategy is currently being used to reduce equity risk while the Fund considers making allocations to other investments with £280 million of equities being protected at this time. The equity protection strategy was increased during 2018/19 to £580 million for a further period of 12-18 months expiring in 2020. This was funded by reducing the Fund's active global equity allocation. During March 2020, due to the fall in equity markets due to the global pandemic, a further £70 million of equity protection was implemented with Legal and General which expires in June 2021.

In March 2019, the first assets transferred from the Shropshire Fund to LGPS Central, the mandates with MFS, Harris & Investec were terminated and funds of £237 million transitioned into the active global equity sub-fund with LGPS Central.

In April 2019 funds transferred to a new absolute return bond manager, T.Rowe Price from the proceeds received from GAM which was terminated the previous year.
In October 2019, the Fund paid across its first capital call to the new Global Infrastructure Partners IV fund. The total Fund commitment over the life of GIP IV is $75 million.

During the financial year, the Fund committed to two further HarbourVest funds (Dover Street X AIF and Co-Investment V Feeder AIF), with a combined total commitment of $50 million.

In May 2020, following agreement with the Chair and Scheme Administrator a redemption request was submitted to PIMCO. Funds are due to be repaid in full in August 2020 as this is currently being reviewed as part of the wider investment strategy review with Pension Committee during 2020/21.

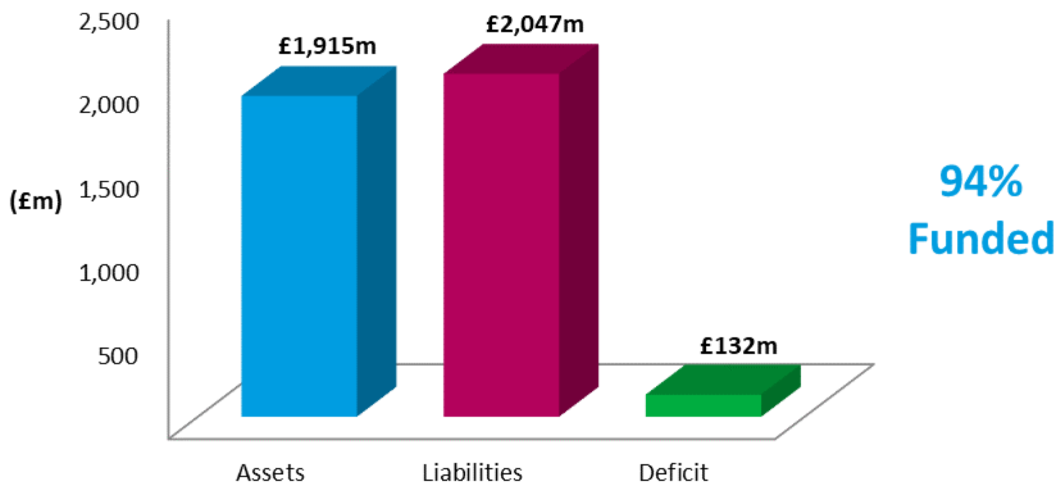
SHROPSHIRE COUNTY PENSION FUND

Accounts for the year ended 31 March 2020
Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,915 million represented 94% of the Fund's past service liabilities of £2,047 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £132 million.



The valuation also showed that a Primary contribution rate of 16.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 19 years, and the total initial recovery payment (the "Secondary rate" for 2020-2021) is an addition of approximately £9m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.25% per annum	4.65% per annum
Rate of pay increases (long term)	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022, following which the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment (other than where the employer has elected to include a provision in their contributions, in which case this is included within the secondary rate). At the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £12 million and an increase in the Primary Contribution rate of 0.8% of Pensionable Pay per annum.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases	3.7% per annum*	3.45% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the 2016 formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £2,906 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£70 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£43 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £97 million due to “actuarial gains” (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2020 is therefore £2,922 million.

GMP Equalisation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £14 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

John Livesey
Fellow of the Institute and Faculty of Actuaries

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
July 2020

AWAIT FINAL AUDIT REPORT FROM GRANT THORNTON

Section 10

Glossary

Glossary

Accountable Body	An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds.
Accounting Concepts	The basis on which an organisation’s financial statements are based to ensure that those statements ‘present fairly’ the financial position and transactions of that organisation. Accounting concepts include ‘materiality’, ‘accruals’, ‘going concern’ and ‘primacy of legislative requirements’.
Accounting Policies	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
Accumulated Absences Account	The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.
Accruals	The accruals accounting concept requires the non-cash effect of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
Actuarial Basis	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
Actuarial Gain	This may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).
Actuarial Loss	These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Glossary

Adjusted Capital Financing Requirement	The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A.
Adjustment A	The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed.
Appropriation	The transfer of sums to and from reserves, provisions and balances.
Assets	These are economic resources that can include anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value.
Associated Company	An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.). The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence.
Balances	Amounts set aside to meet future expenditure but not set aside for a specific purpose.
Balance Sheet	The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non-current assets held.
Below the Line Items	Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and IAS19 pension costs.
Bonds	Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.

Glossary

Borrowing	Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council.
Budget	The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy.
Budget Strategy	A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities.
Cabinet	The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision-making powers are set out in the Council's Constitution.
Capital Adjustment Account	The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Capital Expenditure	Expenditure on items that have a life of more than one year, such as buildings, land, major equipment.
Capital Financing Requirement (CFR)	This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. non-current assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision.

Capital Grants Unapplied	The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
Capital Receipts	The proceeds from the sale of non-current assets such as land and buildings. These sums can be used to finance new capital expenditure.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capitalised Expenditure	Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account.
Cash Equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash Flow Statement	The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
Code of Practice on Local Authority Accounting (Code)	A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.
Collection Fund	A separate statutory fund which records Council Tax and Non-Domestic Rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), NDR distribution to Central Government and the billing Council's own General Fund.

Glossary

Collection Fund Adjustment Account	The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Comprehensive Income and Expenditure Statement	This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
Constitution	The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people.
Contingent Liability	Potential costs that the Council may incur in the future because of something that happened in the past.
Corporate Bonds	Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.
Council	The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.
Council Tax	A local taxation that is levied on dwellings within the local Council area. The actual level of taxation is based on the capital value of the property, which is split into 8 bands from A to H, and the number of people living in the dwelling.
Council Tax Base	To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure.

Glossary

Council Tax Precept	The amount of income due to the Council in respect of the total Council Tax collected.
Credit	A credit represents income to an account.
Credit Ceiling	A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing.
Creditors	Represents the amount that the Council owes other parties.
Debit	A debit represents expenditure against an account.
Debt Charges	This represents the interest payable on outstanding debt.
Debtors	Represents the amounts owed to the Council.
Dedicated Schools Grant (DSG)	A specific grant paid to Local Authorities to fund the cost of running its schools.
Deferred Capital Receipts Reserve	The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts.
Deficit	Arises when expenditure exceeds income or when expenditure exceeds available budget.
Depreciation	The accounting term used to describe the charge made representing the cost of using tangible non-current assets. The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time.
Direct Revenue Financing	The cost of capital projects that is charged against revenue budgets.
Equities	Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Estimation Techniques	The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.
Exceptional Item	Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.
Financial Instruments	Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Council, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees.
Financial Instruments Adjustment Account	The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.
Fixed Interest Securities	Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.
Futures	A contract made to purchase or sell an asset at an agreed price on a specified future date.

General Fund Balance	The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year.
Going Concern	The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.
Group Accounts	Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.
Hedge Funds	An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.
Heritage Assets	These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture.
Housing Revenue Account	The Housing Revenue Account reflects the statutory obligation to maintain a revenue account for the local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. This account includes the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy.
Impairment	Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset.

Index Linked Securities	Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges.
Inflow	This represents cash coming into the Council.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements.
Investments	An asset which is purchased with a view to making money by providing income, capital appreciation or both.
Joint Venture	An organisation in which the Council is involved where decisions require the consent of all participants.
JPUT	A Jersey Property Unit Trust is a specific type of Jersey Trust which is commonly used to acquire and hold interest in UK real estate. The assets of the JPUT are held by its trustees on trust for the unitholders of the JPUT.
LDI	Liability driven investment (LDI) strategies aim to enable pension funds to reduce risk and improve funding levels by reducing volatility over time. Because the value of future pension payments is directly linked to inflation, interest rates and the longevity of Fund members, Funds have sought investments linked to such factors.
Leases	A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system.
Liabilities	An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Liquid Resources	These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days.

Major Repairs Reserve	The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end.
Managed Funds	A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.
Materiality	Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).
Movement in Reserves Statement	This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.
Non Domestic Rates (NDR)	Taxation that is levied on business properties. This is collected by billing authorities and then distributed to preceptors and Central Government.
Net Book Value	The amount at which non-current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.
Net Expenditure	The actual cost of a service to an organisation after taking account of all income charged for services provided.
Net Cost of Service	The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to non-current assets.
Non-Current Assets	Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.

Operating Lease	A lease where the asset concerned is returned to the lessor at the end of the period of the lease.
Outflow	This represents cash going out of the Council.
Outturn	Actual expenditure within a particular year. In the Explanatory Foreword this expenditure is stated before taking into account Depreciation and other Below the Line Items.
Pension Reserve	The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
Post Balance Sheet Event	Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.
Precept	The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor.
Primacy of Legislation	The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply.
Prior Period Adjustments	These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.
Private Finance Initiative (PFI)	A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

PFI Credits	The financial support provided to Local Authorities to part fund PFI capital projects.
Provisions	Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.
Prudential Borrowing	The amount of borrowing undertaken by the Council to fund capital expenditure, in line with affordable levels calculated under the Prudential Code.
Prudential Code	The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis.
Public Works Loans Board (PWLB)	A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.
Public Sector Bonds	Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges.
Revaluation Reserve	The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised. The Reserve contains only revaluation gains accumulated since April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Revenue Expenditure	Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance.
Revenue Expenditure Funded By Capital Under Statute	Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of non-current assets.
Revenue Support Grant (RSG)	An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering.
Reserves	Sums are set aside in reserves for specific future purposes rather than to fund past events.
Service Reporting Code of Practice (SERCOP)	Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities.
Soft Loan	This is a loan which is provided with a below-market rate of interest.
Specific Grant	A grant awarded to a Council for a specific purpose or service that cannot be spent on anything else.
Subsidiary	An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.)
Surplus	Arises when income exceeds expenditure or when expenditure is less than available budget.
Trading Service/Organisation	A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.
Treasury Strategy	A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year.
Unit Trusts	A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Unquoted Equity Investment	Investments in unquoted securities such as shares, debentures or unit trusts which are not quoted or traded on a stock market.
Usable Capital Receipts Reserve	Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects.
Usable Reserves	Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot.
Variation	The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Virement	The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution.

Draft Statement of Accounts
2019-2020

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Shropshire Council

Committee and Date	Item
Audit Committee	
31st July 2020	
1:30pm	Public

Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2019/20

Responsible Officer James Walton
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1. Summary

Shropshire Council is committed to the principles of good corporate governance. It is required, under the Accounts and Audit Regulations 2015, Regulation 6, to produce an Annual Governance Statement (AGS) to accompany the annual statement of accounts, which must be signed by the Leader of the Council and the Head of Paid Service. This statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations.

As part of the review of the effectiveness of the Council's system of internal controls, Shropshire Council's Code of Corporate Governance has been examined, the results of which have informed the AGS. The Code is compiled based on guidance provided by the Charted Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) and identifies how the Council achieved reasonable corporate governance in 2019/20.

Members have been asked prior to, by email, and at this Committee to consider the proposed Annual Governance Statement and the basis on which it has been compiled, and comment on its contents. This will help ensure that it remains a true reflection of the internal controls of the Council for 2019/20.

2. Recommendations

A. The Committee is asked to consider, with appropriate comment, the Annual Governance Statement 2019/20 at **Appendix A**.

B. The Committee is asked to receive and comment on the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance. The detailed code, incorporating evidence, is contained in **Appendix B.**

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. Risk management is part of the overall arrangements for internal control and contributes to the Council's position of strong governance. Corporate Governance is part of the overall internal control framework and contributes to the Council's strong governance arrangements. The AGS has been drafted based on information contained in the risk register alongside data from assurance statements and officer review groups. The strategic risk register is regularly monitored and updated by senior managers and is a useful, up to date tool to identify governance issues. Consequently, this creates a clear link between the AGS, the strategic risk register, business planning and performance.

3.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.

3.3. There are no environmental consequences of this proposal and consultation has been used to inform the Annual Governance Statement and review of the Code of Corporate Governance by seeking assurances and evidence from senior officers as to the effectiveness of internal controls and governance processes.

4. Financial Implications

4.1. Currently there are no financial implications. Any which arise when implementing future improvement activities will be reported upon separately in accordance with approved policies.

4.2. By maintaining a system of good governance and managing and mitigating risks where practicable Shropshire Council can ensure that it gets the best value from its assets. The AGS also has a focus on value for money outcomes.

5 Climate Change Appraisal

The AGS recognises the impact of decisions on the climate and the need to reverse policies to improve the climate. There is a distinct activity allocated to the Director of Place and Enterprise to consider the impact of key decisions and target management of such issues in line with the Council's Climate Change Strategy.

6. Background

6.1 Shropshire Council is required to prepare an Annual Governance Statement (AGS), **Appendix A**. The AGS is an accountability statement from the Council to stakeholders on how well it has delivered on governance over the course of the previous year. The Council demonstrates how it complies with the principles of corporate governance set out in the CIPFA and Solace governance framework; *Delivering Good Governance in Local Government: Framework*, April 2016, containing seven governance principles. Whilst CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework, by adopting the framework, the Council ensures that its governance arrangements accord with best practice.

6.2 The framework is a discretionary code against which the Council is judged. In addition to the Council acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money;
- evaluate against the local code and principles;
- be in an open and readable style;
- include an opinion on whether arrangements are fit for purpose;
- include identification of significant governance issues and an action plan to address them;
- be signed by the chief executive and leading member in a council.

6.3 The framework also requires a section to be included in the AGS that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. This has been integrated within each of the relevant principles and the completed Action Plan is attached as **Appendix C**.

6.4 The Audit Committee play a very valuable role in the development of the AGS and in the finished look of the statement. The Committee's terms of reference include a requirement to review and report on the adequacy of the Council's Corporate Governance arrangements. Compliance with the Code helps to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources to achieve desired outcomes for service users and communities.

6.5 This report looks at those governance arrangements in place for last year to enable the Audit Committee to deliver its year end assurance report. The Committee should also understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the Committee allowing it to provide a valuable reality check for the Statement.

6.6 The Committee can send an important message about the value and importance of the AGS, which will assist those providing assurance to support its conclusions. Once the AGS has been received and commented upon, the Committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for governance improvements.

6.7 Shropshire Council's Code of Corporate Governance, which forms part of the Constitution, is based on the seven core principles referred to in the CIPFA framework:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

6.8 The Monitoring Officer and Section 151 Officer are responsible for ensuring an annual review of compliance with this Code and Internal Audit independently reviews the governance process. In conducting the review, evidence is collated from prime documents and, following discussions with and statements from key officers, this information is compared to known results of Internal Audit reviews. The assurance is then circulated publicly through Audit Committee which allows for further member and officer challenge. The results of this review are included in the Head of Audit's annual report and will form part of the overall assurance for the Annual Governance Statement.

6.9 On a practical basis, the Code contains a corporate governance map defining our framework by reference to key processes, procedures and documents which contribute to our aspiration of excellent corporate governance in Shropshire. This is felt to be a very useful way of illustrating how the Council achieves good corporate governance.

6.10 The Council's formally adopted Code of Corporate Governance is compliant with CIPFA/SOLACE guidance. The Code was reviewed by Internal Audit to determine whether the Council complied with the approved Code of Corporate Governance and is assessed as Reasonable; the evidence in **Appendix B** demonstrates in the areas examined there is generally a sound system of control but there is evidence of non-compliance with some of the controls, these have been escalated to senior management

6.11 The Annual Governance Statement**, Appendix A,** is meaningful and written as an open and honest reflection of the Council's governance and current challenges. It identifies areas for improvement in an action plan and explains how the Council has complied with the Code of Corporate Governance and meets the requirements of the Accounts and Audit Regulations 2015. It is structured to reflect each of the principles in turn. Compliance with the Council's existing Code of Corporate Governance has been reviewed and assessed and is reported in Appendix B. Significant Governance Issues are identified within the AGS for targeted improvement activities with identified lead officers and time frames and the ongoing impact of COVID19 is considered in the contents.

6.12 The Annual Governance Statement is a key corporate document with the Chief Executive (CEO and Head of Paid Service) and the Leader having joint responsibility as signatories for its accuracy and completeness. It is also important that all other senior officers provide assurances to the process. As a corporate document which is owned by all senior officers and members, the preparation of the Annual Governance Statement is overseen and approved by directors supported by senior management.

6.13 In compiling the Annual Governance Statement, a review of the effectiveness of the Council's systems of internal controls, as required by the Accounts and Audit Regulations 2015 (3), is conducted and information is obtained from a range of sources. As such, the signatories to the statement can assure themselves that it reflects the governance framework for which they are responsible. **Annex A** of the Annual Governance Statement (AGS) Assurance Framework 2019/20 clearly identifies the areas from which assurance and supporting evidence has been obtained, thereby demonstrating the effectiveness of the Council's systems of internal control. Further key assurances are provided via:

i) CEO / Head of the Paid Service.

ii) Directors and senior management. The Director of Adult and the Director of Children Services are currently and jointly Interim Chief Executive Officers.

iii) Head of Finance, Governance and Assurance, Section 151 Officer and Responsible Financial Officer.

iv) Head of Legal, Democratic Services, Monitoring Officer.

v) Head of Audit.

vi) Performance and risk management officers and

vii) External Audit and other review agencies.

6.14 To moderate their views and to identify the significant governance issues to be identified in the AGS, Directors consider managers' assurances (first line of defence), information from their services and across the authority (second line of defence), and third-party reports such as Ofsted, peer reviews, internal and external audit (third line of defence).

6.15 The Annual Governance Statement is a key document which identifies the strong systems and processes the Council has in place to continue its high standards of corporate governance. A copy of the Statement is attached as **Appendix A**.

6.16 Satisfactory governance exists but improvements are required to meet good governance standards. Set in the context of continuing to respond to the Coronavirus whilst delivering services to acceptable standards and achieving a balanced budget in 2020/21. The impact of Covid-19 requires a complete review of the current year budget, spending pressures, income targets and savings delivery potential. The 2021/22 Budget cannot yet be considered; Fair Funding and Business Rates Retention have been delayed for a further twelve months and, at present, no confirmation of interim arrangements has been confirmed. A structural funding gap, in the order of £50m per annum and growing, was identified ahead of the Fair Funding review and the impact of Covid-19 and delivering a legal and balanced budget remains the key strategic risk facing the authority in the medium to long term.

6.17 The Council will strive to achieve the following outcomes:

- Additional Services and care required during the COVID19 pandemic and afterwards is provided to preserve life.

- Funding available to respond to COVID-19 pandemic and to deliver sustainable services. Targeted savings and income collection are achieved to support funding.
- Plans designed to mitigate the lack of funding and impact of COVID19 that risk statutory functions not being delivered robustly in respect of Adult and Children services.
- Good recruitment and retention of experienced and qualified staff delivering services.
- Efficient use of technical solutions to deliver effective services.
- Recognition of the impact of decisions on the climate and a reversal of policies to improve the climate.

6.18 The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services. In all cases, Directors have targeted where the risk appetite is to be directed for the end of the year.

6.19 Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both issues over the current and future years. An overall outcome report will be made to the Audit Committee at the end of the year.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Accounts and Audit Regulations 2015. International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014 CIPFA/ SOLACE: Delivering Good Governance in Local Government Framework 2016 edition CIPFA/ SOLACE: Delivering Good Governance in Local Government Guidance notes for English Authorities 2016 edition
Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee.
Local Member: N/A
Appendices **Appendix A** - Annual Governance Statement 2019/20 **Appendix B**– Code of Corporate Governance **Appendix C** - Annual Governance Statement 2018/19 Action Plan Update

Shropshire Council
Annual Governance Statement
2019/20

Good Governance in the Public Sector comprises the arrangements (political, economic, social, environmental, administrative, legal, etc.) in place to ensure that the intended outcomes for all interested parties are defined and achieved. In delivering good governance, both the Council, and individuals working for and with the Council, aim to achieve the Council's objectives while acting in the public interest.

The Council's Code of Corporate Governance, located in the Constitution[1], summarises the Council's good governance principles and details the actions and behaviours required to demonstrate good governance. The seven core principles are:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
B. Ensuring openness and comprehensive stakeholder engagement;
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
E. Developing the Council's capacity, including the capability of its leadership and the individuals within it;
F. Managing risks and performance through robust internal control and strong public financial management; and
G. Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

Senior managers have provided assurances as to the application of these principles throughout the 2019/20 financial year, where there have been instances of non-compliance, these have been identified and escalated to the top of the Council for action. Where there have been significant directorate changes, assurances have been provided by the new post holders. In so doing, this demonstrates that the Council is doing the right things in the right way for the right people, in a timely, inclusive, open and accountable manner. These arrangements take into consideration all the systems, processes, the culture and values which direct and control the way the Council works and through which it is accountable to, engages with, and leads its communities. **Annex A demonstrates the overall Assurance Framework**.

This statement explains how the Council has complied with the Code and meets the requirements of the Accounts and Audit Regulations 2015. This is supported by a 2019/20 Code of Governance audit which provides a reasonable level of assurance.

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Members and officers recognise the importance of compliance with the Constitution, specifically Financial and Contract Rules; Procurement Regulations, Scheme of Delegation and Codes of Conduct. All of which are reviewed and updated regularly. Where there have been instances of non-compliance or areas of concern, these are identified, reported through appropriate channels and managed effectively under established policies and processes and where necessary escalated to the top of the Council for action.

1 https://shropshire.gov.uk/committee-services/ecCatDisplay.aspx?sch=doc&cat=13331&path=0%20

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Officers also comply with their professional organisations' codes of conduct in delivering services (E.g. HCPC[2], AMGPs[3],PSIAS[4], EHORB[5], Faculty of Public Health), against which assessments are conducted to confirm compliance and identify any improvements required. Adult Social Care (ASC) receive regular focused audits which monitor their compliance with the law e.g. Mental Capacity Act, Deprivation of Liberty; Safeguards, Care Act and the Mental Health Act. Emergency Planning undertake all duties expected under the Civil Contingencies Act with integrity and work closely with multi-agency partners within the Local Resilience Forum (LRF). Statutory responsibilities across the Council are discharged openly and proactively, examples include having key statutory officers in place (Monitoring[6], Section 151[7] Officer and the Head of Paid Service, Director of Children's Services, Director of Adult Services, Senior Information Risk Owner (SIRO)). Examples of statutory responsibilities delivered include, LGPS[8] Regulations, CIPFA[9] Code of Practice, Freedom of Information (FOI), Elections, Coroner and Registrars' Services. Statutory responsibilities for Special Educational Needs, Education Access, Early Years and place planning, sufficiency and admissions are discharged openly, proactively and in full compliance with Admission Codes. Human Resource and recruitment policies and processes ensure that the Council is fully compliant with employment law and that no discrimination exists, these are refreshed regularly and agreed in conjunction with the recognised trade unions. Staff are well supported, receiving training and development opportunities. Internal Audit produces a risk based plan each year, working closely with directors and heads of service to provide independent assurance that appropriate standards are maintained or areas of concern highlighted and acted upon. The Council has a zero tolerance to fraud and corruption. Identified concerns are acted upon in a timely manner, which can lead to specific outcomes, learning points and improvements. There is a reasonable level of success in criminal legal proceedings, licensing and parking appeals, which provides external judiciary/tribunal assurance that the decision making within the Council is robust. The Council undertakes a self-assessment of its fraud risks, to identify and understand them. It acknowledges issues and puts in place plans which demonstrate that action is being taken and outcomes are visible. This process is transparent and reports are taken to senior management and those charged with governance. Guidance on 'Speaking up about Wrongdoing' which incorporates whistle blowing is available to staff, Members, the public and contractors. Any irregularities identified will be investigated by Internal Audit or the appropriate officers within services. Audit Committee are responsible for the monitoring and overview of the "Speaking up about Wrongdoing Policy" and receive an annual report. Key developments consider green and environmental issues, such as the North West

[2] Registered body for qualified social workers
[3] Approved Mental Health Act Professionals
4 Public Sector Internal Audit Standards
[5] Environmental Health Registration Board
[6] The Monitoring Officer has three main roles: 1. To report on matters he/she believes are, or are likely to be, illegal or amount to maladministration; 2. To be responsible for matters relating to the conduct of Councillors and officers; and 3. To be responsible for the operation of the Council's Constitution.
[7] Every local authority shall plan for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs, this is the Section 151 Officer
[8] Local Government Pension Scheme
[9] Chartered Institute of Public Finance Managers

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Relief Road (NWRR) project to ensure mitigations, such as noise reductions for tourism venues, acoustic fencing, etc. and Equality and Social Inclusion Impact Assessments (ESIIA) have also been undertaken for the Housing and Local Economic Growth Strategies.

B: Ensuring openness and comprehensive stakeholder engagement
Openness and transparency are demonstrated throughout Council activity. Councillors represent local people in the Council's decision making, reporting processes are transparent, both internally through officer and director groups, and publicly through Council committee meetings. Compliance is demonstrated in the main to the Transparency and Freedom of Information agenda. Key decisions are reported and trialled where necessary, through the senior team and then to Members via Party Leads, Groups, Cabinet and Director meetings. Examples include: Cabinet and Council reports, policy approvals, and minutes of meetings (FGAT[10], Information Governance, Commissioning and Assurance Board). The Council engages positively and sets out to work in a collaborative open partnership approach with several strategic partners including Central Government departments (Cities and Local Growth Unit, Homes and Communities Agency), the Marches Local Enterprise Partnership (LEP) and neighbouring local authorities. It is a non-constituent member of the West Midlands Combined Authority; has a proactive Business Board which it services and engages with on key initiatives and policies, this has led to development of the Local Economic Growth Strategy and helped to launch and promote the Shropshire Growth Hub (part of the wider Marches Growth Hub). The management of One Public Estate is underway with other public-sector partners. A multi-agency high cost placement funding panel with Children's Services, Education Services and the Clinical Commissioning Group (CCG) has been established to manage high cost placements efficiently. Many Council services are delivered in partnership with other organisations such as the Local Strategic Partnership, Fire Service, STaR[11] Housing, West Mercia Energy, Shropshire County Pension Fund, town and parish councils and voluntary bodies and trusts. Children's Services Ofsted inspections and recent focused visit have reported on the good quality of partnership working by the Children's Safeguarding and key agencies involved with safeguarding children and looked after children. Several stakeholder and community groups work with the Council to deliver major projects; Broadband Delivery UK, Homes England, Environment Agency, Highways England, Shropshire Business Board, Shrewsbury and Oswestry Business Improvement Districts. The Future Oswestry Group (FOG) has been formed to take forward the vision and implementation plans for Oswestry town centre and surrounding growth corridor. The Council also works with local partnerships in commissioning, procurement and contract activity. COVID19 has seen changes to supplier chains, demands on provision of services, renegotiation of contracts and review of risks, including developing joint commissioning arrangements with others for the supply of personal protective equipment. The Council is a member of the Community Operating Groups (COGs) which promotes local procurement with other public-sector bodies and representation from businesses through engagement events. It also undertakes early market engagement exercises to inform its commissioning decisions and procurement processes, examples of stakeholder engagement in Public Health include;

[10] Finance Governance and Assurance Team
[11] Shropshire Towns and Rural Housing

developing the Parking Strategy, Pavement Permits, Drug and Alcohol consultation and the Health and Wellbeing Strategy.

Annually the public is consulted on several projects, examples include; the Budget, Local Economic Growth Strategy and Great Outdoors Annual Public Survey. Extensive non-statutory, consultations of the development of the Local Plan Review 2036 have been conducted, the most recent on the preferred strategic sites, these have been extensively responded to and publicly reported upon and will inform the final draft Local Plan Review, which will be subject to statutory consultation. High level consultations have been conducted on the NWRR and engagement in community events, to Members briefings and Traffic Regulation Orders in local areas. The Council's web site is well utilised and where required consultations are extended to allow for any local concern that is raised.

Economic Growth convenes and leads the strategic infrastructure forum which brings together providers in Shropshire including digital and fibre providers, Highways, Environment Agency, Utility companies, etc. Stakeholders have reported back positively on the helpfulness of these sessions. They are enabling better collaboration, communication, planning of resources and joined up approaches to local delivery. This year there have been specific coverage of strategic topics including Climate Change.

Economic Growth with Information and Intelligence colleagues have been involved in engaging stakeholders in the emerging Communities and Rural Strategy for Shropshire, engagement has involved all local elected members, town and parish councils. The new Asset Management Strategy has gone through the Performance and Management Scrutiny Board which tested the emerging outcomes and objectives with members prior to its agreement at Cabinet incorporating key feedback from the stakeholder group.

Officers from several areas have received and responded to multiple enquiries from communities, residents and businesses following the impact of flooding in February and Covid19 from March. Web services are increasingly used to provide updates to common enquiries and roll out self-service channels, such as Revenues and Benefits products; business grant applications following Covid19; Adult Social Care in promoting self-service and ensuring that information is accessible and relevant to meet service needs. Shropshire Choices provides information about a wide range of sources of help and support, including independent financial advice and information about care homes and housing options.

Shropshire Human Resources (HR) provides HR advice to both private and public sector businesses across Shropshire on a not for profit basis. They host events throughout the year on employment law and HR matters to support local businesses managing their staff. In September 2019, they held the first Leadership Conference which attracted 170 plus individuals from across Shropshire.

Adult Social Care utilises several communication and engagement channels. With Shropshire Partnership In Care (SPIC) it is on a journey towards true co-production, showing a strong commitment to involve people as equal partners in designing their support and achieving outcomes on a personal level, as well as contributing their knowledge and experiences towards decision making and service design at the strategic level. Citizens, Experts by Experience and patient representatives are involved in a range of partnership groups, for example; the Making it Real Board is chaired by a member of the public who also regularly attends and inputs to Director Management Team meetings.

Shropshire Community Safety Partnership (CSP) is currently under a restructure which will bring together the Children's Safeguarding Partnership, Adult Safeguarding Board and CSP. This is in recognition of the number of cross-cutting areas that impact across the statutory

B: Ensuring openness and comprehensive stakeholder engagement
framework, for example 'domestic violence, exploitation and transitional safeguarding'. The governance of this work will be overseen by a board which will include the Director of Adult Social Care (ASC), Director of Public Health, Police Chief and other key stakeholder executives and a new role of Statutory Safeguarding Business Partner has been introduced to ensure organisational compliance with this approach. The Health and Wellbeing Board (HWBB), is developing its priorities for a refreshed 2021 Strategy which relies on working together in partnership to improve people's health and sustain services. The priorities are based on the refreshed JSNA[12]. Membership of the Board includes commissioners, providers, Healthwatch, the Voluntary and Community Sector. Subgroups of the Board involve a wide range of stakeholders including experts by experience. The strategy focusses on working together to take a whole system approach to improving the health of the Shropshire population. It relies on utilising the effective work already taking place and making better use of our resources to help prevent ill health and sustain services.

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits.
The Council has seen a refresh of the Commercial, Economic Growth, Asset Management, Treasury, Fees and Charges; and the Workforce Development Strategies. Production of a co-ordinated Medium Term Financial Plan (MTFP) and Capital Strategy aligned to the Corporate plan and other corporate strategies was achieved, both were expanded and improved in 2019/20 to ensure they contained realistic estimates of resources and expenditure to inform decisions on service delivery. Finance Business Partners were involved with services in their financial planning for future delivery. Service delivery was detailed in the Service Plan set out in actions and targets that align to the Corporate aims and objectives with Key Performance indicators (KPIs) in place to monitor performance. Whilst COVID19 only arrived in March 2020, the longer term financial resilience issues; loss of income; additional spending; impact on policies and the reprioritisation of projects; effect on economic growth and resilience needs to be considered, especially given there is no identifiable end date for its impact, it is a recognised continuous event and as a result the above strategies and policies will be revisited throughout 2020/21. Shropshire Council is the administering authority for Shropshire County Pension fund. The Local Government Pension Scheme company, LGPS Central Limited, manages across nine Local Pension Funds of which the Shropshire County Pension fund is one. Governance arrangements are led by the Company's Board and the Council contributes to the Shareholder Forum. Adult and Children's Social Care both have a dedicated Principal Social Worker whose role is to raise the quality of ethical social work practice and ensure values and integrity of social work are improved. The Deprivation of Liberty Safeguards Team works daily to ensure the least restrictive care possible is being received by someone lacking capacity living in a care home or hospital. The Adult Social Care Market Position Statement (MPS), published in November 2019 and co-produced with the market and updated every six months provides detail and focus on Adult Social Care and related services such as housing and helps to inform the Council's commissioning intentions. Adult Social Care is primarily focused on the social benefits of improving the well-being of those it provides support to, but such services will also assist Shropshire economically and

[12] Joint Needs assessment

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits.
environmentally in areas such as sustained supported employment; prevention activities; transforming care; resilient communities and healthy lives; performance reporting and monitoring; the right interventions and promoting the use of innovative technology. Ofsted data shows that in Shropshire 90% primary schools are good or outstanding compared to a national average of 88% (as of 31/12/2019) and 85% of secondary schools compared to a national average of 76% (as of 31/12/2019) Children's Services are working to engage with business leaders in the local area to promote the best interests of our looked after children and care leavers to seek opportunities for work placements and apprenticeships in the local area. The Care Leaver Covenant has been launched and officers are working within that to develop learning and employment opportunities for our young people for whom the Council has corporate parenting responsibilities. There is now specific guidance for the inclusion of Climate Change Impact on decisions in Committee Reports. There is strong evidence associating air pollution with increased mortality and ill-health, including exacerbation of asthma, effects on lung function and increases in respiratory and cardiovascular hospital admissions. There are two areas in Shropshire, a part of Shrewsbury Town Centre and of Bridgnorth Town Centre where the legal limits for air pollution (nitrogen dioxide) are being exceeded. Local Authorities have statutory local air quality management duties under the Environment Act 1995. Shropshire Council has been successful in securing DEFRA[13] grant funding for an innovative project to help develop and implement air quality measures in Shrewsbury and Bridgnorth to benefit the health of those living, working and visiting our towns. As one of the Council's priorities in its Corporate Plan 2019/20 – 2021/22 is "A Healthy Environment" with a declaration made underneath this to "ensure infrastructure and assets are as efficient and environmentally friendly as they can be to reduce pollution" the Council is keen to see that the Local Town Plan has air quality running through it as a main strand, in particular where there are exceedances of legislative air quality objective levels. In addition, Regulatory Services and the wider Public Health Directorate commented on recent proposals to cut the Park and Ride Service and the Local Bus subsidies which could adversely impact air quality. Quality in Public Health: A Shared Responsibility; is a new framework for England brought in 2019, that aims to raise quality in public health services and functions. This provides a range of mechanisms to help set direction; support delivery; manage risk; monitor and review practice and outcomes for adults and carers with care and support needs; and ensure our stated priorities are being met and that the population and those in more vulnerable groups are met. Health practices have been reviewed informally against this in 2019 and will be formally audited in 2020. A Health and Wellbeing in all Policies (HiAP) approach has now been approved for all Shropshire Council policies. It is a whole Council approach to public health based on an understanding of the interconnectedness of the social determinants of health. It has been defined by the World Health Organisation as an approach to public policies across sectors that systematically considers the health implications of decisions, seeks synergies, and avoids harmful health impacts to improve population health and health equity. Therefore, ensuring sustainably across economic, social and environmental benefits, all outcomes will be monitored. Our Workforce Digital Strategy sets out how Shropshire Council is becoming more sustainable using technology, it defines how our training efforts can support the local

[13] Department for Environment, Food and Rural Affairs

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits.
economy and how technology can reduce carbon emissions. The future design of the Council is also considered, such as, increased home working, the need for electronic signatures on documents; increased use of MSTeams for meetings, sharing documents, and providing advice. Virtual committee and officer meetings are becoming the new norm and a digital post room has been established and rolled out. Sustainable development principles are fundamental to the determination of all new development proposals across Shropshire. Embedded in both the locally adopted development plan policies and national guidance. Connecting Shropshire has led the engagement with the West Mercia 5G project – an opportunity to be a testbed of 5G implementation focused mainly on health and social care implementation and a series of case studies are being included. This project is led by Worcestershire County Council and includes health, education, local authority and service provider partners.

D: Determining the interventions necessary to optimise the achievement of the intended outcomes.
All decisions are taken correctly either through delegating to officers or by Cabinet or Council. Reports are considered by Legal, Finance and Risk Management Services before decisions are made to ensure they present the information required for members to make a reasoned decision. Responding to COVID19 emergency decisions follow approved processes and a protocol for virtual public meetings is adopted. Implications for delivery of services and/or increases in resources are reported throughout the Council and with the support of Finance Business Partners, services do not overspend without appropriate action being taken and where this is not possible, appropriate justification provided. The Capital Investment Board chaired by the s151 Officer oversees significant future investments aligned to Council priorities and key strategic objectives (income generation, reduction in costs, and achievement of social value). There has been extensive development of the monitoring tools and processes for capital projects which is undertaken by the Strategic Programme Officer Group (SPOG). The gateway processes and procedures have been finessed this year and many outputs are collected and reported on. Additions have included considerations for climate change within each project in support of the Council's agreed Climate Change Framework. Economic Growth is supporting the reporting of several LEP funded projects including SITP[14] and North West Relief Road in accordance with stringent MHCLG[15] requirements. Extensive negotiation has secured a £9.3 million grant from Homes England Housing Infrastructure Fund to improve facilities. The work undertaken to identify unmet housing needs in the county has led to the establishment of a wholly owned housing development company as a vehicle to addressing this need, Cornovii. Under business continuity plans teams have mobilised quickly to respond to recent flooding and COVID19 pressures. The Council has worked with partners to optimise the support for those who need it. For floods; this included a business impact survey, regular communications including personal visits, a drop-in session for advice and support, feeding impacts to the LEP

[14] Shrewsbury Integrated Transport Package
[15] Ministry of Housing, Communities and Local Government

and MHCLG and supporting the delivery of the flood response grants with Finance colleagues. Wider learning from responses will be cultivated in the Council's transition to a refreshed business operating model following COVID19 which has identified new areas of risk as result of pandemic and opportunities to do some things in a slightly different way.

The Workforce Digital Strategy and The Workforce Strategy have been updated this year. They set out how the Council is becoming more sustainable using technology, supporting training and upskilling the workforce, through a combination of internal and external organisational development and or IT interventions. The Council is utilising the opportunities provided by the apprenticeship levy for formal training as well as creating internal teams to support staff as they in turn need to develop with the technology. The HR Team has been restructured to support service areas in a more focused way.

Climate Change is increasingly impacting on decisions an example of which is the increase in calls to divest from certain companies and sectors within the Shropshire County Pension Fund (SCPF). To date this pressure has been managed and where Shropshire Council has come under pressure, it is satisfied that SCPF is managing the risk robustly and will continue to challenge and review the situation as required.

Persistent high levels of smoking in pregnancy across Shropshire, Telford and Wrekin; the inclusion of commitments around inpatient smoking services for women in the long-term plan; and a decision to decommission smoking services in Shropshire led to a full review of services. Options for smoking in pregnancy services have been outlined and recommendations for a future system-wide service model based on best practice from across the Country and experiences within the Shropshire, Telford and Wrekin area has been developed collaboratively with the LMS[16], service providers, local authorities and Public Health England. A new system-wide service model, embedded in maternity services is needed which builds on the experience of existing providers, this has been shown to deliver higher outcomes and return on investment in services, and supports the ambitions in the long term plan

Children's Services are delivering against a Joint Targeted Area Inspection (JTAI) Action Plan to address Ofsted Inspection recommendations. In addition, a Permanency Action Plan has been developed and implemented following a recent Focused Visit. Individual Work Plans are also in place across several teams which are subject to improvement in the Independent Reviewing Unit, Leaving Care and Joint Adoption Service.

In Adult Social Care, strengths-based conversations are underway for hospital discharges with individuals, called Pathway Zero. The approach was assessed and launched in September 2019 to support discharge from hospital for people with needs below the criteria for Pathways 1, 2 3 who may be readmitted without support. This new approach provides a preventative pathway to ensure that people who may be below the criteria for requiring personal care and active rehabilitation, will be supported through a community network and 'pick list' of options to maintain them in their normal place of residence, delaying the need for health or social care interventions/support. Patients discharged under this Pathway Zero approach; rate of local hospital readmission reduced from 25% to 3% in four months. The service is also trialling use of the Public Health MyCAW[17] evaluation model to measure wellbeing outcomes following an individual's hub appointment.

Work has been focused improving the control environment in Highways following an unsatisfactory Internal audit assurance rating for the service. Restructuring, use of

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[16] Local Management Service????

[17] Measure yourself concerns and well being

D: Determining the interventions necessary to optimise the achievement of the intended outcomes.
consultants, improved use of technology and a review of processes is leading to improvements ready for a review in 2020/21. Management have provided interim update reports to Audit Committee demonstrating a positive direction of travel.

E: Developing the Council's capacity, including the capability of its leadership and the individuals within it.

The Council saw the resignation of the Chief Executive in March and in the interim, the position is covered jointly by the Director of Adult Services and the Director of Children Services. Officers and Members understand their respective roles, these are set out in job descriptions and the Constitution. These responsibilities and accountabilities are understood and reviewed on a regular basis. In addition, all members continue to receive training throughout their four-year term and performance appraisals are in place for officers. Members are briefed on new and emerging local government initiatives and the e learning portal provides other pieces of helpful training.

The Council is leading regional workforce development work for the Association of Directors of Public Health Network, Central England Environmental Health Management Board and Charter Institute of Trading Standards. During 2019 a peer review of regulatory services, trading standards and licensing has been complete, and recommendations will be implemented during 2020. Public Health services are also looking to undergo a peer review in 2020/21.

The third Shropshire Leadership Programme started in September 2019 and concludes in Spring 2020 with 30 delegates attending. This takes the total to over 120 managers and future leaders who have completed the programme. Tools from the senior leadership programme are being implemented and learning dispersed throughout various teams. Workforce planning adopted for example in Finance, Governance and Assurance is allowing for succession planning ensuring that employees at all levels of the service are giving opportunities to develop and move up the structure.

Leap into Learning, an e-learning tool to support staff development, continues to increase its modules. Upskill Shropshire is the brand name for use of the Apprenticeship Levy at Shropshire Council. The Council partners with training providers across Shropshire (and beyond) to provide high quality apprenticeship training to staff. In addition to providing the framework of providers to two other local authorities (Telford and Wrekin and South Staffordshire District Council). There are several of our Looked After Children in apprenticeships across the Council. Opportunities have been provided throughout the Council for graduates and apprentices. Graduates have gained experience of project development, programming, business support and planning processes. Part time study is available to several staff to assist with their professional development into positions where it has proved difficult to recruit new staff with relevant qualifications or experience.

In Education, funding reductions have significantly reduced capacity. A traded Education Welfare Service has been established and is extremely successful with a high level of buy in, the cost recovery basis on which it operates means that capacity is constantly stretched. Ways of working are constantly under review and the team has digitalised many of its functions, the use of technology to enhance the teams' work will continue to be developed and implemented. Service level agreements are reviewed annually and modified as appropriate.

Diminishing funding presents risk to sustaining effective arrangements for monitoring,

E: Developing the Council's capacity, including the capability of its leadership and the individuals within it.
challenging, supporting and intervention in schools by the Education Improvement Service (EIS). This increases the risk of a reduced proportion of good and outstanding schools. Section 151 update meetings and governance meetings with the Director of Workforce and Transformation, Monitoring Officer, s151 Officer and Head of Audit are established and undertaken regularly to consider governance issues as they arise. COVID19 business continuity response has seen the completion of Workforce Questionnaire identifying key skills and willingness to support key frontline services with appropriate training and support. Where required resources are redeployed into either new or established teams. i.e. Coordinating and Distribution of PPE, Hospital Discharge Hub, Telephone and Community Reassurance team Increased online activity is encouraged to enable residents to self-serve where possible; in Revenues and Benefits an ongoing initiative to enable and encourage e-billing and e-notifications has seen over 70% of applications for housing benefit made online and a commitment to reduce internal printing costs is being delivered. In Adult Services, virtual day services have been established during COVID19, continuing to support people who would usually be in day services when they are at home including check in and chat calls to families and assistance with practical tasks. The Early Help service has partly implemented the move of its cases onto the new Early Help Module in Liquid Logic, this is ongoing to September 20. In Adult Social Care a new supervision and appraisal policy was launched. Its implementation was supported by workshops with supervisors, communicated to staff at a winter roadshow and in the staff newsletter. Support for people receiving direct payments and for Community Team practitioners has been developed with a dedicated Direct Payment Team. Implementing a policy that direct payments are considered where funded care has been identified as required. The assurance of this work is overseen by the Direct Payment Board which is chaired jointly with an individual who receives a direct payment and the Assistant Director for Adult Social Care. A review into the services and activities provided for unpaid or family carers has been instigated to understand better the reach and impact of the carer support services delivered by Crossroads Together and how Shropshire's strengths-based, community-led support model is demonstrated in the conversations our practitioners have with carers. There is a need to understand the effectiveness of the interface between Council directly delivered and commissioned services and the voluntary and community sector. The approach was one of co-production with the Family Carers Partnership Board (FCPB), chaired by the Portfolio Holder and made up of family carers, and representatives of Shropshire's health and care system fully involved in its design and delivery. Adult Social Care have continued to work with partners and the provider market to ensure that there are robust and flexible arrangements in place that support discharges from hospitals and allow for more flexibility in admission times particularly during surge periods. Early in 2017 Shropshire Council was a middle performing authority and was required to improve its performance by 60%. By collectively implementing innovative measures, Shropshire Council exceeded its Better Care Fund targets, achieving a 99% reduction in numbers in December 2019 compared to numbers in April 2017. In Early Years there has been a year on year increase in the numbers of children and young people requiring support through an EHCP[18] since the introduction of the Children

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E: Developing the Council's capacity, including the capability of its leadership and the individuals within it.
and Families Act 2014. At the same time, there has been a period of reduction in real terms of funding available to support high needs across schools/education settings. This has meant that case work has become more complex, it is difficult to recruit and retain staff, and whilst action is taken to review the team and its operations to support more efficient ways of working, delivery remains a challenge In response to COVID19 Legal Services required greater investment to deal with the court care proceedings which moved to a virtual review setting but required greater resourcing. Health and Safety officers turned to managing the procurement and provision of personal protective clothing supplies and their distribution aligned to Government guidance. Children's Services are focusing on providing social workers and managers with the rights tools to deliver highly effective services, including evidence based models of assessment and intervention; (Resilience Model) which involves each worker receiving five days specialist training, with specific training for managers. Restorative Practice focused on relationship based practice. Secure Base Model of Trauma Recovery for children who are looked after. Shropshire are part of both Frontline and Step Up to Social Work, which are graduate programmes to ensure recruitment of good quality newly qualified social workers. The service has increased numbers of Team Managers in recognition of need to increase management oversight on children's case work and to ensure that their plans progress in a timely manner. New Team Managers are accessing National Practice Supervisors Programme.

F: Managing risks and performance through robust internal control and strong public financial management
Services report routinely and regularly through to Council Committees such as Cabinet, Audit, Pension and Scrutiny Committees. They pro-actively input into the annual audit programme, strategic, operational and project risk reviews. Both strategic and operational risks are reviewed regularly by senior managers and directors for learning points and action and are reported through to Informal Cabinet and Audit Committee. Risks are also identified and managed in service and team plans. There is promotion of the Opportunity Risk Management Strategy across the Council and, through its application, a positive approach to managing risk is delivered when focusing on achieving the required outcomes and objectives. Risk registers for key projects involve all relevant parties including external partners to ensure all risks are captured and mitigated. Major projects including NWRR Shrewsbury Shopping Centres, Oswestry Growth Corridor, Oswestry HIF[19] and Quarry Pool have clear governance in place with project boards established. A Major Projects Board for Place has oversight of the key projects across the Place Directorate and each of the Boards reports by exception into this governance structure. The Council has continued to conduct its own business continuity management and emergency planning exercises and participated in multi-agency exercises. Full action plans are created following the exercises and these provide both assurance and learning points for future development. More recently, application of these plans has ensured service provision during periods of flooding and in response to Coronavirus, this is ongoing into 2020/21 seeing competing challenges for resources, services and supporting the business and public community. Service Recovery Plans were instigated so all non-essential work was stood down to respond to the

[19] Housing Infrastructure Fund

pandemic. Reactions to business continuity challenges continue to be well managed providing; speedy responses to ensure the safety of all, compliance with and implementation of Government guidance, improved communications of the issues, increased deployment and use of IT systems for remote working, community support, collation of data and compilation of dashboards such as staff absences, payment of grants to businesses, redeployment of staff, testing of staff showing symptoms, business and council tax relief and minimising the risk of fraud.

Governance process have stood up to the COVID19 challenge with Executive/ Emergency Management Team intervening as necessary to deal with escalated issues. Specific processes that have seen an element of redesign during COVID19 responses include; successful piloting of virtual committee meetings; the compilation of a Covid19 Vulnerable People single database and analytical reports to enable the identification of vulnerable individuals and households, and communities; Following COVID19 pressures, patients are discharged within three hours of being deemed medically optimised. Changes to working patterns, agreement of new workflows and system reconfigurations have all been acted upon quickly and efficiently to ensure a 'system' that is supported in the discharge and delivery of appropriate and timely care requirements for all Hospital Pathways; All rough sleepers have been accommodated in hotel accommodation; There is a food offer in place for all households temporarily accommodated to avoid unessential trips and assist with social distancing and self-isolating. Additional bed space is assured for both domestic abuse victims and key workers unable to return home.

The financial impact of COVID19 in 2019/20 is minimal and cashflow arrangements and grant funding put in place by Government and arrangements to track extraordinary spend in-year prevent this from being a control issue as at 31 March 2020. It is flagged as a potential issue for 2020/21 to impact on the Financial Strategy for which a short-term interim plan will be necessary. Fair Funding and Business Rates Retention have been delayed until at least 2022.

All financial decisions are reported through to Cabinet, Council and Scrutiny Committee in an appropriate and transparent basis and challenge welcomed from members and officers. All budgets, actuals and variances are reported regularly with supporting information trails. The Financial Strategy identifies a short-term budget plan and a long-term aspirational plan linked to the Corporate Plan for a self-sustaining Council. A full risk assessment is undertaken in support of this. Final Accounts are produced on time and in-line with best practice and have an unqualified audit opinion. In addition, based on the work they performed, External Audit concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. for the year ending 31 March 2019

The Council approves the Robustness of Estimates and Adequacy of Reserves paper each year. This report demonstrates the financial resilience of the Council, for example: the need to hold a General Fund Balance with a target level and explanations for variance, details and categorisation of all earmarked reserves and provisions and details of previous year outturn variances.

All managers have financial management training and regular updates with Finance Business Partners to monitor and manage department budgets appropriately. A dashboard of financial performance is shared and discussed at each management team meeting. This includes a RAG rating for each of the primary codes within the service. Budget forecasting is completed on Business World each period.

Internal Audit sets a risk assessed programme each year identifying the key areas for review and the need for assurance. High risk areas not subject to review are identified to enable

F: Managing risks and performance through robust internal control and strong public financial management
senior management and members to gather and seek their own assurance as necessary. Audit Committee undertakes a regular self-assessment, challenged by officers and External Audit, and undertakes regular training sessions based on the identification of areas for improvement and key risks and fundamental knowledge-based needs. Over the year service managers have been required to attend Audit Committee to provide assurance not otherwise secured on their control and risk management environment. Based on the Internal Audit work undertaken and management responses received; the Head of Audit has offered limited assurance for the 2019/20 year that the Council's framework for governance, risk management and internal control is sound and working effectively. She reported that; There are an increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected. In addition to which, the response to the Coronavirus pandemic has led to scope limitations which restricts the independent assurances provided on the key systems that have undergone fundamental changes during the year. Where systems have been evaluated to a draft stage, assurances remain low. Management of Coronavirus has introduced unprecedented pressures and responses. Managers have been diverted onto business continuity pressures and unable to plan improvements to known internal control processes, leading to increased risks in some areas that will impact on delivery of the Council's objectives. 2019/20 has been a challenging year given the embedding of key fundamental line of business systems (financial and human resources) alongside the challenge to deliver savings, increase income and respond to Coronavirus. Information management training is undertaken by all staff and senior staff report this through to the SIRO. All data has assigned owners, these are regularly reviewed. Information Asset Owners complete annual Information Governance Assurance Statements. Data is held across many systems by different teams. It is stored on secure drives and databases that are protected in accordance with approved policies. Investment in Flowz, an information management system, is enabling a more consistent approach to the management of data assets. Shropshire Safeguarding Community Partnership (SSCP). Multi-agency partnership datasets have been developed about safeguarding activity. From April 2020, a single Assurance and Performance group will be established with datasets being developed under the following headings: Prevention, Demand and timeliness, Customer satisfaction/hearing the voice of the person. Operationally, a new Business Planning document will be established for Partnerships groups to use, with the following areas for action: Prevention, Learning and Development, Datasets/subject profiles, Case audits, Hearing the voice of the person and Other activity A review of leisure centres has resulted in two centres being brought into Council management. Late February and March 2020 saw the onset of COVID19, and changes in services and home working meant that communication, closure of some services such as Libraries, or Park and Ride had a significant impact upon revenue, plus additional costs for suspending contractors whilst social distancing procedures are developed will have an ongoing cost.

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability
As a public body, the Council has a high level of transparency in its activities and reporting and complies with the relevant legislation. Information is reported and shared through various routes including Council, Cabinet, Scrutiny Committees and with partners, via for example the Neighbourhood Plans, Place Plans, Local Plan Review, Planning Applications and local

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability
Economic Growth Strategies. The Place Plans have also been the subject of a Shropshire Association of Local Councils (SALC) working group. Regular briefings are held with portfolio holders and ward members are engaged on local matters. Scrutiny committees and meetings, consider new strategies, plans and performance outcomes. In the last 12 months this has included business support, Shrewsbury Shopping Centres and inward investment. The Commissioning and Assurance Board continues to allow for stakeholder engagement, integral in managing key decisions, such as the Shrewsbury Shopping Centre Project. The Information Governance Group is implementing updated Information Security policies based on best practice and an Anonymisation and Pseudonymisation policy to ensure compliance with Data Protection requirements and to enable research and data discovery. Transparency is demonstrated in our partnerships: The Shrewsbury Big Town Plan is a one with a partnership agreement in place and an independent chair. The purpose of which Shropshire Council is a key partner to, is to drive the delivery of the Big Town Plan and ensure that outputs and objectives within the plan are adhered to. There will be an annual performance report of progress against the Big Town Plan. In Highways, a presentation to Members on their Portal, its inception and development has provided greater access to updates. There are other examples of greater transparency with on line service information, such as Car parking data; wide advertising of procurement opportunities (Website, Twitter, UK Contract Finder, OJEU); Increased reporting to Directors through the Commissioning and Assurance Board managing reports around contract assurance, saving achievement, SME and local procurement expenditure and management of the Council wide contract register and reference system. All service areas are subject to internal audit review with significant key systems falling under annual review given their status. Internal Audit recommendations are considered by the senior team on a regular basis for good housekeeping and to identify additional learning. The information also provides a position statement on the risk appetite of the control environment and its resilience to any challenges. Business World is flagged as a potential risk in terms of transparency, given the inadequate levels of assurance that can be evidenced around the system in its first year of operation In their Audit Findings for the year ended 31 March 2019, the External Auditor provided an unqualified opinion on the financial statements and an unqualified Value for Money (VFM) conclusion.

Significant governance issues

Satisfactory governance exists but improvements are required to meet good governance standards. To achieve this, the main challenges facing the Council appear in the **Appendix** below and are set in the context of continuing to respond to the Coronavirus whilst delivering services to acceptable standards and achieving a balanced budget in 2020/21. The impact of Covid-19 requires a complete review of the current year budget, spending pressures, income targets and savings delivery potential. The 2021/22 Budget cannot yet be considered; Fair Funding and Business Rates Retention have been delayed for a further twelve months and, at present, no confirmation of interim arrangements has been confirmed. A structural funding gap, in the order of £50m per annum and growing, was identified ahead of the Fair Funding review and the impact of Covid-19 and delivering a legal and balanced budget remains the key strategic risk facing the authority in the medium to long term.

Leader

--/---
Andy Begley/ Karen Bradshaw
Interim CEOs/ Head of the Paid Service

Appendix: Significant governance issues

To ensure services are delivered to acceptable standards whilst achieving the budget savings required whilst managing strategic risks, the Council will strive to achieve the following outcomes:

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
1.	Additional Services and care required during the COVID19 pandemic and afterwards is provided to preserve life.	Resource limitations and the ability to mobilise services at speed places people and businesses at a higher risk of failure and loss. Failure to deliver the Commercial Strategy within agreed timescales and to levels approved by Council within the Financial Strategy prevents the Council from meeting savings targets and corporate outcomes. Impact of Covid19 and Brexit.	Refresh strategies and policies impacted on by COVID19 (e.g. Commercial, Economic Growth, Asset Management, Home Working, Code of Governance, Digital and Financial). Identifying ongoing responsibilities and design of services to sustain their delivery. Reprioritise plans and resources to deliver services and reflect health needs recognising the fluid longer term strategic needs impacting on capacity. Work with business owners to provide advice and support and signpost where help is available. Clear communication plans to ensure that everyone remains focused and engaged in delivering Council objectives.	All Directors	March 2021
2.	Funding is available to respond to COVID-19	Initial Government Grant not enough to meet all additional spending across	Clear management and monitoring of the financial impact of COVID19 and	Director of Finance	March 2021

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	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
	pandemic and to deliver sustainable services. Targeted savings and income collection are achieved to support funding.	all areas or to sustain services post COVID19. Inability to ensure income exceeds expenditure for the years 2019/20 and future years as defined within the Financial Strategy for outcomes to be delivered. Lack of clarity from Central Government on the future funding levels and changes to Local Government powers and financing, plus increased uncertainty re: local resources which inhibits the ability to calculate future budgets (including funding methodology)	normal financial pressures on the existing budget. Refreshed financial strategy, clear forecasting and sensitivity analysis. Identification and maximisation of all available funds/ grants. Ongoing liaison with all relevant bodies[20] around the funding crisis and practical response to it. Monitor recovery, savings and income collection targets and take action to maximise revenue.	Governance and Assurance	
3.	Plans are designed to mitigate the lack of funding and impact of COVID19 that risk statutory functions not being delivered robustly in respect of Adult and Children services	Increased safeguarding issues are not addressed as timely and fully as they should be.	Budget monitoring and reporting to ensure delivery of statutory services. Explanation and exploration of the impact of funding issues on base pressures and additional COVID related activity.	Director of Adult and Children Services	March 2021
4.	Good recruitment and retention of experienced	Demands for specialist staff changes as a result of COVID19. Staff cannot be recruited to quickly enough and need to be retained from more	Monitor demands on agency staff. Maximise training and apprenticeship programmes and use of the levee.	Director of Workforce and Transformation	March 2021

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[20] MP's /Secretary of State/ etc.

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
	and qualified staff delivering services	attractive offers to sustain Council service provision. Increases in work related stress impacts the ability to deliver Council outcomes.	Ensure slick recruitment processes with Shropshire Council as an employer of choice. Review data showing demands on services to confirm workforce needs going forward and to respond appropriately. Employ redeployment processes to match skills across roles and to identify and strengthen any recruitment needs in a timely manner. Staff survey to review the impacts and challenges of COVID19.		
5.	Efficient use of technical solutions to deliver effective services	Officers and members are not optimising the technology in delivering their services Failure to adopt approaches to realise savings from the implementation of the Digital Transformation Programme.	Digital Strategy reviewed and refreshed. Increase in agile working. Members and officers are equipped with and trained to have the confidence to run virtual public meetings as required. Home working is assessed for long term solutions, resourced and set up considering health and safety requirements.	Director of Workforce and Transformation Director of Legal and Democratic Services	March 2021

	Targeted outcome	Strategic Risk	Activity	Lead Officer	Completion date
			Increased number of virtual meetings with clients to deliver services introduced where appropriate. Improvements made to key systems to enhance their functionality (e.g. BW, Liquid Logic).		
6.	Recognition of the impact of decisions on the climate and a reversal of policies to improve the climate	Carbon levels increase contributing to the declining health and wellbeing of Shropshire Residents.	Consider the impact of key decisions and target management of such issues in line with the Council's Climate Change Strategy.	Director of Place and Enterprise	March 2021

Annex A

ANNUAL GOVERNANCE STATEMENT (AGS) ASSURANCE FRAMEWORK

Key documents/functions/ process guidelines

- **Local code of corporate governance**
- **Corporate plan and financial strategy**
- **Council constitution**
- **Opportunity risk management strategy**
- **Commissioning strategy**
- **HR policies, procedures and codes of conduct**
- **Anti-fraud and corruption and whistleblowing (Speaking up about wrong doing) policies**

Annual Governance Statement

Signed by the Leader of the Council and the CEO to accompany the Statement of Accounts

Audit Committee

Independent review and approval

Council and Directorate policies, plans and risk registers

Draft Annual Governance Statement
Senior management with responsibility for drafting AGS after evaluating assurances and supporting evidence and identifying areas for improvement

IA to evaluate the effectiveness of the risk management, control and governance processes (Required by the Accounts and Audit Regulations 2020)

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Provision of ongoing assurance on adequacy and effectiveness of controls over key risks

Policy and performance boards	**External inspections** **(e.g. Ofsted, Care Quality Commission)**	**Financial control assurance** (Section 151 Officer)	**Legal and regulatory assurance** (Monitoring Officer)	**Members' assurance**	**Internal Audit**	**External Audit**	**Risk management and performance management**

Key to levels of assurance
First line of defence
Second line of defence
Third line of defence

Appendix B

Shropshire Council Local Code of Corporate Governance

LOCAL CODE OF CORPORATE GOVERNANCE
INTRODUCTION

The International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines governance as follows:

"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved"

The International Framework also states that:

"To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times".

"Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders"

GOOD CORPORATE GOVERNANCE

Shropshire Council is committed to achieving good corporate governance and this Local Code describes how the Council intends to achieve this in an open and explicit way. The local code is based upon the CIPFA SOLACE framework "Delivering Good Governance in Local Government" (April 2016). As laid out in the guidance it "*is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities".* Consequently, the local Code has been written to reflect the Council's own structure, functions, and the governance arrangements in existence.

*The local code is based on the following seven principles, the first two of which underpin the remaining five with the overall aim of "**Achieving the intended outcomes while acting in the public interest at all times".***

The principles are as follows:

Acting in the public interest requires a commitment to and effective arrangements for:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance also requires a commitment to and effective arrangements for:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Many of the requirements of the code are included in the Council's constitution and the Council's key strategies and policies.

Library folder - Shropshire Council Constitution — Shropshire Council

MONITORING AND REVIEW

The Code of Corporate Governance is subject to annual review. This review includes an assessment as to the effectiveness of the processes contained within the Code. This includes annual assessments such as:

- Annual review of the Constitution
- Annual reports of portfolio holders
- Annual reports of the Scrutiny Committees
- Head of Internal Audit Annual Report
- Audit Committee Annual Report
- Council Customer Feedback Report – Complaints, Compliments and Comments
- External Audit Annual Letter

The outcome of this review is reported in the Annual Governance Statement.

The following details how the Council meets the core principles and the systems, policies and procedures it has in place to support this.

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Rational: Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Behaving with integrity** • Developed a Code of Conduct for members to ensure that high standards of conduct are maintained. • The Monitoring Officer will review any breaches of the Member Code of Conduct. • The Localism Act 2011 abolished the requirement for the Council to have a statutory Standards committee though the Council has retained a non-statutory committee that can meet if required. Standards Committee. There have been no meetings of the standards Committee or Standards Sub Committee in the 2019/20 financial year. • An Employee Code of Conduct that sets down standards of behaviour and conduct the Council expects of its employees. • Standard decision-making reporting format to ensure that all those responsible for taking decisions have the necessary information on which to do so. • There is a Code of Conduct in relation to the acceptance of gifts and hospitality and all instances must be recorded. Advice and guidance is provided to staff and members on the intranet. • In accordance with the Localism Act 2011 Registers of Members' pecuniary interests are recorded and published on the Council's website. • Members' declaration of interests is a standing item on all agendas. Minutes show declarations of interest were sought, and appropriate declarations made. • Protocols for members on Council Representation on various outside bodies. • A Corporate Feedback Policy that is published on the Council's website and is supported by a Complaints, Compliments and Suggestion on-line form. • A Policy for raising a concern "Speaking Up About Wrongdoing" (Incorporating the Whistleblowing Policy) is in place to protect individuals. **Demonstrating strong commitment to ethical values** • A Constitution which sets out delegations of the executive, committees and senior officers, and the decision-making process to be applied. It also emphasises that the Council will act within the law. • Terms of Reference exist for all committees. • The Council have both Contract Procedure Rules defining the Council's process for all contracts

and Financial Rules defining the safeguards and controls in place for managing public money and assets, these are reviewed on a regular basis.

- The Council use the “Big Conversation” to consult with stakeholders and other interested parties to seek feedback before developing key operational documents.
- The Council has a clear, well publicised complaints procedure which requires complaints to be dealt with rigorously and promptly. Complaints are monitored by management and Cabinet, together with improvement actions arising from them.
- The employee survey shows an ethical framework is happening[1] within the Council, however it is not fully embedded and working across all areas. Learning from the employee survey is being used to identify actions for improvement.

Respecting the rule of law

- The Constitution identifies the Chief Legal Officer as the Council’s Monitoring Officer and sets out the role of the Monitoring Officer.
- An Anti-Fraud and Corruption Strategy supported by a Counter Fraud, Bribery and Anti-Corruption Policy which includes a Fraud Response Plan and a Speaking Up About Wrongdoing Policy “Whistleblowing Policy”. The strategy is supported by a Whistleblowing hotline for use by both the members of staff and the public to report irregularity and fraud. The Audit Committee receive an annual report of whistleblowing activity.
- Officers in Legal and Democratic Services play a key role in ensuring that the principles enshrined in the Constitution, sustainable decision making, robust scrutiny, rules of natural justice, standards of conduct, efficiency, transparency, legality and high standards of corporate governance are delivered in practice through the Council’s decision-making process. The Service provides advice and guidance on the interpretation of legal developments, is LEXCEL accredited and possesses specialist legal officers who are experts in specific areas of Council activities.
- Where there have been instances of non-compliance with Contract Rules, and where the recognised approval process has been circumvented these have been identified and escalated to the top of the Council for action.
- Where there have been breaches in Health and Safety Legislation these have been immediately actioned upon discovery.
- All Committee reports require their authors to address the impact of the recommendations with respect to human rights.

[1] When looking at Leadership and Management; People; Processes and procedures; Culture, Values and Consistency; Assurance and Accountability. An ethical framework can be: Emerging within; Happening within; Working for; Embedded and integrated within; or Driving the council

Core Principle B: Ensuring openness and comprehensive stakeholder engagement	
Rational: Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Openness** • Adoption of a Publication Scheme that describes the kinds of information available and provides guidance about how to access personal information and submit a Freedom of Information request. • The Council has a small Information Governance team committed to ensuring the principles of Data Protection, Freedom of Information and Transparency are followed and all staff are required to undertake data protection training on an annual basis. • Adoption of a standard reporting format in relation to committee reports. The format includes a risk assessment and opportunities appraisal together with the financial implications attached to any recommendations, and appropriate background papers are cited to ensure full transparency. • Council and Cabinet meetings are webcast. Agendas, reports and minutes are published on the Council's website. Meetings are open to the public except in the case of exempt items. • Dates for submitting, publishing and distributing timely reports are set and adhered to. • The Corporate Plan and Financial Strategy set out the Council's mission and priorities. • The Shropshire Compact has been effective in supporting the relationships between Shropshire Council, other public sector bodies and the voluntary and community sector. It acts as an aid to problem solving by clearly setting out roles, responsibilities and commitments. **Engaging comprehensively with institutional stakeholders** • The Council recognises the importance of communicating its vision and uses several channels to this effect. • The Council aims for a consistent approach to communication, reaching and targeting the key customers, stakeholders and partners in the most appropriate way. • The Council aims to improve engagement through consistent branding, so that our stakeholders know what we do and who to contact. This ensures compliance with the Code of Recommended Practice on Local Authority Publicity March 2011. This requires all Council publicity aimed at the public to be clearly and unambiguously identified as being produced by the Council. Printed material should make this evident on the front cover.

	• Our website can help residents understand the Council's vision and purpose and to access services on a day-to-day level. • The Shropshire Newsroom (www.shropshirenewsroom.com) hosts all the latest Council news stories with podcasts, videos and photographs available from the corporate Flickr account. • The Council works with colleagues in the local, regional and national media to complement Shropshire Newsroom and ensure people have access to information about the Council. • The Council uses relevant social media, as a method of disseminating our information and listening to feedback on issues as they arise. • The Council uses its Customer Services telephone and face-to-face points as the main first point of contact enabling people to be more efficiently directed to the services they need. • The Council uses the Voluntary and Community Sector (VCS) Assembly weekly news bulletin to promote consultations, policy news, engagement opportunities and partnership working opportunities across the voluntary and community sector. **Engaging stakeholders effectively including individual citizens and service users** • The Council seeks the views from individuals, organisations and businesses on several areas. All Council surveys are delivered online using the corporate approved consultation portal. Links to current consultations are published on the website. Some recent examples of consultations undertaken in 2019/20 are the 2020 Budget, Council Tax Support, Library Strategy, Youth Support Strategy, Local Plan Strategic Sites, Review of rates for commissioning of Residential and Nursing beds. The full list of consultations undertaken is available on the Council website. • Shropshire's Making It Real partnership was set up by Shropshire Council in response to the national 'Think Local Act Personal' initiative and Making it Real Framework. The aim of 'Making it Real' is for personalisation to be a reality for people who use adult social care services. This approach is driven through a series of 'I' statements outlining how adult social care should best meet people's needs; enabling people to live full and independent lives. The partnership works with the local authority to ensure this approach is adopted locally, through influencing and shaping adult social care services in Shropshire. • Local consultation has taken place using specific consultation and engagement activity for services and service areas. Locality commissioning activity involves engagement with communities and service user groups, as well as through structures such as the Local Joint Committees. These have helped to identify the needs and priorities of our citizens and make these our key areas for service delivery. Feedback from such events is used to develop strategic plans, priorities and targets. Widespread local consultation has taken place via service user and customer feedback

	surveys, public meetings, local partnerships and Local Joint Committees to identify the needs and priorities of our citizens and make these our key areas for service delivery. • The Council has set up an email newsletter to keep individuals abreast of major events such as flooding issue and the COVID 19 pandemic.
Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits	
Rationale: The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Defining Outcomes** • The Corporate Plan and Financial Strategy set out the Council's vision and priorities together with its aims and actions. • Core strategic plans (such as the Economic Growth, Commercial, Commissioning Strategies and Sustainability, Environment and Climate Change Policy) set out specific aims in detail and compliment the overall Corporate Plan. The Commercial Strategy was revised in January 2020 to align with the other corporate policies. • There is a clear reporting mechanism for performance information which is presented alongside the financial information for the corresponding period to the Performance Management Scrutiny Committee. Areas of concern are identified and reported quarterly and exceptions are monitored more frequently; e.g. on a monthly basis, providing greater detail and explanation of the issues and actions being taken. The reports are presented to senior managers and Cabinet. The underlying detailed dashboards are also available to Scrutiny members who can identify specific issues they may want to consider. Cabinet may ask Scrutiny to look at specific issues of on-going concern. • The Council have established robust project management arrangements to monitor outcomes and outputs on projects such as the Digital Transformation, Capital Investment and Commissioning and Assurance Boards. **Sustainable economic, social and environmental benefits** • The Council has an Environmental Policy Statement, Towards Zero Carbon, highlighting its commitment to sustainable environment. • The Council has an Economic Growth Strategy which lays out its approach to sustainable development. • The Council has a Commercial Strategy which lays out its approach to becoming a more commercially focused organisation embracing commercial culture in terms of how the Council acts to ensure the delivery of High Quality Services as efficiently and effectively as possible.

	• A Social Value Charter is in place that is designed to assist commissioners and procurers to maximise opportunities to improve the social, economic and environment condition of our local area through effective commissioning and procurement. The Charter has three principles which commissioners, service providers voluntary, community and social enterprise organisations commit to with the aim of improving the social, economic and environmental wellbeing of Shropshire.
Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes	
Rationale: Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Determining interventions** • A standardised format of decision-making reports is used to ensure that all relevant information is considered such as analysis of options, resource implications, and outcomes of Equality and Social Inclusion Impact Assessment etc. Options are clearly defined and analysed to ensure decisions are based on the best possible information. • The Commissioning Strategy is applied to ensure clear alignment to need and improving outcomes. **Planning interventions** • The Council sought opinions on future budget proposals for 2020/21. They set out what the issues were and invited the public to engage on them. • There is a clear reporting mechanism for performance information which is presented alongside the financial information for the corresponding period. Areas of concern are identified and reported quarterly and exceptions are monitored more frequently; e.g. on a monthly basis, providing greater detail and explanation of the issues and actions being taken. The reports are presented to senior managers and Cabinet. The underlying detailed dashboards are also available to Scrutiny members who can identify specific issues they may want to consider. Cabinet may ask Scrutiny to look at specific issues of on-going concern. • The Council's performance framework links directly to the Council's outcomes. Performance is reported quarterly to members through Cabinet, and in more detail to Scrutiny Committees. **Optimising achievement of intended outcomes** • The annual budget is prepared in line with agreed priorities. The Council publishes its Financial Strategy annually to set an indicative three year financial plan to fit the longer term strategic vision

	as well as a detailed one year budget. This is intended to include realistic estimates of revenue and capital expenditure. • Resources are employed to assist commissioners and procurers to demonstrate the range and amount of social value generated or the financial value to society as a result of the added social value.
Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it	
Rationale: Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Developing the entity's capacity** • There is a member induction programme in place, supporting and developing newly elected members. A Community Leadership and Development Framework provides comprehensive development opportunities, and essential sessions. Development interventions are designed in the context of what individual members say they require during their one to one development reviews, and what their roles and responsibilities dictate they need. Member secretaries provide support, and the Member and Officer Protocol clearly stipulates officers' duties to provide professional and technical advice. The Local Member Protocol guides members and officers to behave in a way that promotes excellent communication. The member induction programme was re-run following the May 2017 local elections. • A Workforce Strategy 2016/17-2020/21 was adopted in 2016/17 to ensure the Council has the right people with the right skills in the right place, at the right level and cost to enable the Council to meet its strategic objectives. • The Council actively promotes the use of Leap into Learning, an online learning and training platform that allows courses to be tailored to individual officers. This has been extensively used to deliver e learning to a wide variety of employees and to support more conventional training methods by providing a booking and attendance system. • The Council actively promotes the development of staff through work-based apprenticeship schemes. • A workforce skills audit was undertaken in respect of the COVID 19 pandemic to allow redeployment of staff based on skills as required. **Developing the capability of the entity's leadership and other individuals** • A Protocol on Member/Officer Relations that assists both members and officers achieve good

many different types of backgrounds, reflecting the structure and diversity of communities.	working relationships in the conduct of Council business. • A Scheme of Delegation that is reviewed annually considering legal and organisational changes. • A Constitution that sets out financial management arrangements through the Financial Regulations and Contract Procedure Rules. • Member Development is managed via the Group Leaders and training is provided as needed. Members are updated on legal and policy changes etc. as required. • Induction programmes for all members and employees. • Training for employees is made available through Leap into Learning which provides all employees with access to online training courses that can be tailored to the individual, dependent upon role undertaken. • Staff are annually appraised which includes the identification of training and development needs and drawing up of training action plans to address these. • Apprenticeship Programme offering training, skills and experience in local government. • Graduates on the Shropshire Graduate Development Programme continue to develop their skills and knowledge; contributing to succession planning for the future of Shropshire Council. • Health and Safety policies designed to protect and enhance the welfare of staff are actively promoted and monitored. • A coaching connections network group has been established to build a pool of people who are skilled in facilitating personal development tools and to develop internal coaching capacity. This network provides group and individual personal development and coaching support to help people through change.
Core Principle F: Managing risks and performance through robust internal control and strong public financial management	
Rationale: Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Managing risk** • Risk management arrangements that are embedded across all service areas and help inform decision making. • Risk and Opportunity Management Framework that is subject to annual review and reported to the Audit Committee on an annual basis. • Responsibilities for managing individual risks are contained within the Opportunity Risk Management Strategy.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public	• The Senior Management Team regularly reviews the strategic risk register and seeks assurances that it is kept up to date and actions to mitigate risks are implemented. • Operational risks are reviewed by risk owners on a regular basis. • Council strategic risks have been identified, aligned to the Annual Governance Action Plan and a member of the Senior Management Team assigned as the risk owner. Risk profile and actions plans have been put in place to ensure the risks are mitigated effectively and are reviewed monthly. • Business Continuity processes were invoked to take to manage the risks caused by flooding in January/February and the COVID 19 pandemic in March 2020. **Managing performance** • The Council has five established overview and scrutiny committees which operate under clear terms of reference and rules of procedures laid down in the Constitution. Scrutiny Committee chairs and members have clearly laid down accountabilities in the Constitution. Members may not participate in the scrutiny of decisions they were involved in. • The Council is part of a long standing and effective Joint Health Overview and Scrutiny Committee with Telford and Wrekin Council. This reflects the reality that most substantial changes to services covered by the statutory duties for Health Scrutiny affect services across both local authority areas and as such would need to be looked at jointly, in line with regulatory direction. • There is a standardised format for all committee reports which includes background to the report, any recommendations that decisions need to be made upon together with reasons behind those recommendations. • Reports and minutes and decisions under member consideration are published on the website and are available in hard copy in a variety of formats on request. • Contract Procedure Rules and Financial Regulations set out the Council's arrangements and ensure that processes continue to operate consistently. • An effective internal audit service is resourced and maintained. Internal Audit prepares and delivers a risk-based audit plan in line with Public Sector Internal Auditing Standards which is kept under review to reflect changing priorities and emerging risks. • The Council continues to benchmark its services to assist in identifying areas for review and to ensure that as many performance indicators as possible are performing to the standards that the Council sets. This includes the use of peer reviews to ensure efficiency of operations. **Robust internal control**

commitment from those in authority.	• There is an effective apolitical Audit Committee with clear terms of reference which are reviewed annually and based on the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Guidance. • The Audit Committee, which is independent of cabinet, oversees the management of governance issues, risk management framework, internal control environment, financial reporting and Treasury Management. Its performance is subject to annual self-assessment. • An annual report is produced by Internal Audit which provides an opinion on the Council's control environment, and a self-assessment of its arrangements against the public sector internal audit standards and CIPFA's guide to the role of the Head of Internal Audit. • Anti-Fraud and Corruption Strategy which is subject to regular review and is approved by the Audit Committee. • Quarterly fraud reports summaries anti-fraud activity in the year. • An Annual Governance Statement (AGS) that is subject to review by the Audit Committee. • Training is provided to Audit Committee members on areas relevant to their role. • There are frameworks in place in relation to child and adult safeguarding. **Managing data** • The Council has a small Information Governance team committed to ensuring the principles of Data Protection, Freedom of Information and Transparency are followed. • Information governance and security awareness including individual responsibilities and good practice is raised and embedded with officers and elected members through the mandatory information governance training. • The Council's Information Management Strategy provides guidance on the arrangements that must be in place to ensure personal data is kept protected and secure. • Effective information sharing is undertaken in accordance with the Data Protection Act and the Council's Data Protection Policy. • Data Subjects are informed why their personal information is being collected and how it will be processed (including when shared with other bodies) through the Council's overall Privacy Notices published on our website and individual Privacy Statements on forms, in booklets etc. • A formal Data Sharing Framework Protocol between Shropshire and Telford and Wrekin Partnership in respect of jointly delivered health services. • Data verification and validation processes are integrated within systems and processes.

	Strong public financial management • An audited and signed Statement of Accounts is published on an annual basis containing: - A statement of responsibilities for the Statement of Accounts. - A statement of the Council's accounting policies. • An Annual Governance Statement signed by the Leader of the Council and the Chief Executive Officer/Head of Paid Service. • Compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2015), is reviewed annually. • Financial procedures are documented in the Financial Regulations. • Financial Strategy in place. • The financial position is reported quarterly to Cabinet. • The Council invoked temporary measures in March 2020 in respect of the COVID 19 Pandemic in line with central government guidelines.
ore Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability	
Rationale: Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	**Shropshire Council's commitment to achieving good governance is demonstrated below:** **Implementing good practice in transparency** • Agendas, reports and minutes are published on the Council's website. • Adoption of a style guide document that outlines how to communicate more effectively and to ensure communications are consistent and clear. • Adoption of the National Transparency Code. • The Cabinet is the Council's key decision making body and makes decisions within the policy framework approved by Full Council. It is made up of the Leader, who is elected by the Council, and up to nine members. When key decisions are to be discussed or made, these are published in the Cabinet forward plan in so far as they can be anticipated. If these key decisions are to be discussed with Council officers at a meeting of the Cabinet, this will be open for the public to attend except where personal or confidential matters are being discussed. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to decide which is outside the budget or policy framework, this must be referred to the Council to decide. **Implementing good practices in reporting**

	• Annual Financial Statements are compiled, published to timetable and included on the Council's website. • An annual report from each of the scrutiny committees is presented to Council alongside reports from the portfolio holders; the scrutiny reports detail the past work of the Committees, the present work and future. • Completion of an Annual Governance Statement (AGS). • A Business Plan and Financial Strategy setting out the Council's mission and priorities. **Assurance and effective accountability** • The AGS sets out the Council's governance framework and the results of the annual review of the effectiveness of the Council's arrangements. The AGS includes areas for improvement. • An effective internal audit service is resourced and maintained. The Service has direct access to members and provides assurance on governance arrangements via an annual report containing an opinion on the Council's internal control arrangements. • External Audit provides an annual opinion on the Council's financial statements and arrangements for securing Value for money. • The Council actively welcomes peer challenge, reviews and inspections from regulatory bodies. • The Shropshire Compact is a set of shared principles and guidelines for effective partnership working between Shropshire's public sector bodies and the Voluntary and Community Sector (VCS). It acts as guidance to ensure shared understanding of responsibilities and obligations and works towards best practice in partnership.

Appendix B – Shropshire Council's Corporate Governance Framework

'The International Framework: Good Governance in the Public Sector' defines 'governance' as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must always try to achieve the Council's objectives while acting in the public interest.

Core Principles	(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	(B) Ensuring openness and comprehensive stakeholder engagement	(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits	(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	(E) Developing the Council's capacity, including the capability of its leadership and the individuals within it	(F) Managing risks and performance through robust internal control and strong public financial management	(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability
Evidence of Good Governance	The Constitution	Corporate Plan	Committee Reports	Forward plan	The Constitution	The Constitution	Audit Committee
	Schemes of delegation	Members roles and expectations	Corporate Plan	Budget Consultation	Member and staff development	Audit Committee	Committee Framework
	Audit Committee	Local Joint Committees	Committee Framework	Stakeholder Engagement	Member Induction Programme	Committee Framework	Councillors and decision making
	Councillors and decision making	Public Meetings and decisions recorded	Councillors and decision making	Option Appraisals	Recruitment and Selection process	Financial Procedure Rules Contract Procedure Rules	External audit of accounts and Value for money opinion (Item 40)
	Statutory Officers Roles: Chief Executive, Chief Financial Officer, Monitoring Officer, Head of Paid Service. HR policies.	Annual Statement of Accounts and Annual Governance Statement published	Procurement Strategy	Annual Governance Statement / Assurance Framework	Staff Appraisal Process	External audit of accounts and Value for money opinion Financial Strategy Annual Statement of Accounts and Annual Governance Statement published	
	Financial Procedure Rules Contract Procedure Rules Financial Strategy	Council website records all council meetings and key decisions	Public Sector Social Value Act 2012	Financial Strategy	Peer Reviews / External Inspection	Opportunity Risk Management Strategy	Annual Statement of Accounts and Annual Governance Statement published
	Members (E1) and Employees Codes of Conduct	Corporate performance, financial and risk reporting framework	Commissioning Strategy	Councillors and decision making	Benchmarking	Open Data and Transparency Code	Internal Audit Service Head of Audit's Annual Opinion / Report (Item 12)
	Members / Officers Register of Interests / Register of Gifts and Hospitality	Open Data and Transparency Code	Financial Strategy	Opportunity Risk Management Strategy	Internally led reviews / independent challenge	Strategic and Operational Risk Registers	Financial Strategy
	Protocol for Member Officer Relations (E85)	Customer feedback / Complaints Policy	Social Value Charter	Alternative Service Delivery Models	Alternative Service Delivery Models	Risk Based Internal Auditing Service / Plan (Item 77)	Strategic performance, financial and risk reporting framework
	Counter Fraud, Bribery and Anti-Corruption Policy and Strategy (Item 54)	FOI Publication Scheme	Opportunity Risk Management Strategy	Corporate performance, financial and risk reporting framework	Commissioning Strategy	Internal Audit Service Head of Audit's Annual Opinion / Report (Item 12)	Open Data and Transparency Code
	Whistleblowing Policy and hotline	Public Consultations	Corporate performance, financial and risk reporting framework	Service Plans	Continuing Professional Development Programmes	Corporate performance, financial and risk reporting framework	Website

‘The International Framework: Good Governance in the Public Sector’ defines ‘governance’ as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must always try to achieve the Council’s objectives while acting in the public interest.							
Core Principles	(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	(B) Ensuring openness and comprehensive stakeholder engagement	(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits	(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	(E) Developing the Council’s capacity, including the capability of its leadership and the individuals within it	(F) Managing risks and performance through robust internal control and strong public financial management	(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability
	Opportunity Risk Management Strategy	Shropshire Compact	Corporate Climate Change Strategy	Project Management	Safety, Health and Wellbeing Internal health and safety	Counter Fraud, Bribery and Anti-Corruption Policy and Strategy (Item 54) Anti-Money Laundering Policy	FOI Publication Scheme
	Customer feedback / Complaints Policy	Voluntary and Community Sector Assembly		Whistleblowing Policy and hotline	Workforce Strategy	Emergency / Business Continuity Management	Complaints Annual Report
		Financial Strategy		Corporate Plan	Leap into Learning	Information Management Strategy	

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Appendix C: Significant governance issues

To ensure services are delivered to acceptable standards whilst achieving the budget savings required and managing strategic risks, the Council as planned in the ***Annual Governance Statement 2018/19***, during 2019/20 strived to achieve and delivered the following outcomes:

Targeted outcome 1	**Services review, identify and deliver efficiency savings, financial assumptions become more refined and budget plans are in place to deliver services within the resources available.**
Strategic Risk	High: Lack of clarity from Central Government on the future funding levels and changes to Local Government powers and financing, plus increased uncertainty re: local resources which inhibits the ability to calculate future budgets (including funding methodology).
Activity 1.1	**James Walton April 2020** Central Government Funding mechanism is expected to change because of Fair Funding and Business Rates Retention from 2020/21. Early sight of implications, modelling of suspected impacts and responses to all consultation requests is essential.
March 2020 update	Fair Funding was delayed in year to April 2021, and due to Covid-19 was delayed further to at least April 2022. Existing grants were uplifted for inflation and other factors and rolled forward into 2020/21. This enabled a balanced budget to be set, although an additional £14m savings target had to be achieved.
Activity 1.2	**James Walton July 2019** Future funding levels are now closely aligned with new rules under Prudential Code for Council to produce a 20-year Capital Programme expressed within a revised Capital Strategy. This strategy to be linked with other corporate strategies in place.
March 2020 update	Financial Strategy, Capital Strategy, Commercial Strategy, Asset Management Strategy Workforce Strategy, Workforce Digital Strategy and Treasury Management Strategy were all refreshed, updated, brought into alignment and approved by Cabinet and/or Council in February 2020.
Activity 1.3	**James Walton Sept 2019** NHB[1] may be abolished from 2020/21, worth £7.2m in 19/20 and a significant (absolute and relative) benefit to Shropshire. This has been raised with Directors and Members and will form part of lobbying with local MPs. Currently still working to 2020/21 for the potential abolition of NHB. Council will need to identify an alternative for £7.2m NHB currently being utilised in the Financial Strategy prior to this indicative abolition date; alternative funding or additional savings.
March 2020 update	NHB Legacy Payments have been removed leading to a phasing out of this grant over the next four years. This has been factored into the Financial Strategy and the consequent funding gaps each year.
Activity 1.4	**James Walton June 2019** Initial exemplification produced by SCT[2] to model impact of fairer funding. Adult Services modelling suggests Shropshire would benefit, but potentially by too small a margin to make a significant impact. Further work to be undertaken and actions will then arise.

[1] New homes bonus

[2] Society of County Treasurer's

March 2020 update	Fair Funding delayed to at least April 2022. Unknown impact in meantime with little expectation of an update from government before autumn/winter 2020.
Targeted outcome 2	**The workforce can effectively deliver the objectives of the Council and meet its priorities. The workforce has the right people in the right place at the right time, but allows flexibility to adapt and change to economic, and external factors. Levels of sickness absence is low; staff are trained and competent in their roles and morale is high.**
Strategic Risk	High: Inadequate retention and recruitment of experienced and qualified staff results in insufficient capacity and experience to sustain Council's service provision.
Activity 2.1	**Michele Leith 30th June 2019** Workforce Strategy to be reviewed in line with the Target Operating Model work and updated with the creation of Organisational Development Strategy/Plans to support.
March 2020 update	Updated and approved by Cabinet February 2020.
Activity 2.2	**Michele Leith July 2019** Re-structure of Human Resources team to allow senior officers to spend time on transformation.
March 2020 update	HR Business Partners introduced and embedded. Temporary Payroll Manager in place recruitment planned
Activity2.3	**Michele Leith April 2019** Report to Directors in the new year with outcomes/recommendations following the staff survey of 2018. Communication out to the workforce "You Said, We Did" thereafter.
March 2020 update	Responses have been analysed and following COVID19 lockdown and increased remote working; a further survey has been undertaken to explore increased health and safety and use of technology considerations, evaluate emerging risks and opportunities, and follow up the previous staff survey themes to measure progress and new questions.
Targeted outcome 3	**Staff are healthy and happy in the workforce and therefore perform to a high standard.**
Strategic Risk	High: Increases in work related stress impacts the ability to deliver Council outcomes.
Activity 3.1	**Michele Leith 31st December 2019** Review of the 'one stop shop' for workplace wellbeing on the staff intranet to raise profile and ensure information is relevant.
March 2020 update	Reviewed programme lots of tools around and directed to staff. Mental Health week delivered around emotional and mental health well-being. More planned around physical well-being.
Activity 3.2	**Michele Leith 30 June 2019**

	Further proposals for policy change (sickness absence) will be presented to Directors as well as an update on current sickness levels to consider following the work of the joint working group. Action plan to be produced following investigation of context of work related stress.
March 2020 update	There is a recognised mental wellbeing link. We have trained 30 mental health first aiders
Activity 3.3	**Michele Leith 30 June 2019** Profile of work related stress to be raised with reports going to Health and Well-being Board
March 2020 update	The situation is stable presently. It is difficult to gauge where we are with COVID. BW reporting processes are under design and further work underway on managers completing the information.
Activity 3.4	**Michele Leith 30 June 2019** Development on mental health awareness at work – resources and tool kit
March 2020 update	Completed and Mental Health first aiders are trained.
Activity 3.5	**Michele Leith July 2019** A bid has been put forward for funding for the monthly staff MOTs to continue due to charges being applied from help2Change. These have currently been put on hold.
March 2020 update	In place not able to use during COVID
Targeted Outcome 4	**A clear long-term budget is identified allowing for certainty in the delivery of future services.**
Strategic Risk	High: Inability to ensure income exceeds expenditure for the years 2019/20 and beyond for outcomes to be delivered.
Activity 4.1	**James Walton June 2019** Stage 3 of the Financial Strategy, looking at 2020/21 and beyond will be drawn together for consideration by Cabinet/ Council in Spring 2019.
March 2020 update	This was delayed following the delay in Fair Funding and is now cancelled until government updates on its proposals from April 2022 onwards.
Activity 4.2	Clive Wright May 2019 Directorate objectives to be agreed for each Director linked closely to Financial Strategy requirements in Stage 3.
March 2020 update	The Chief Executive completed Performance Management Appraisals for five Directors with the final appraisal for one Director scheduled for March 2020. Final written feedback to reflect agreed objectives, in line with the Financial Strategy, was to then be provided by the Chief Executive to each Director and follow-up progress meetings were planned. Due to the departure of the Chief Executive on 25/2/20, this documentation is not completed.

Activity 4.3	**Michele Leith September 2019** Savings - Key area of delivery in "Innovation" pillar: transformation of the Council to deliver efficiency savings in the order of £6m - £10m. Work to develop a Target Operating Model, efficiencies through mobile and flexible working and consolidation of systems is being planned through a working group including Directors and Cabinet Members (including the Leader).
March 2020 update	Significant savings achieved following changes in how we use IT, based on learning from Covid the Council is to develop a different operating model to drive out more savings to reflect the increased use of IT, i.e. smaller head office/ reduced travel and transport.
Activity 4.4	**Tim Smith May 2019** Savings – Key area of delivery in "Innovation" pillar: Consolidation of our Estate through the 'One Public Estate' programme. Asset management strategy being refreshed to align with the capital strategy and commercial strategy.
March 2020 update	Completed and approved by Cabinet February 2020
Activity 4.5	**Tim Smith May 2019** Council disposals list updated to align with capital receipts target in the capital strategy approved by Council on 14th February 2019.
March 2020 update	Council disposals list updated to inform the Capital Strategy and programme approved by Cabinet and Council in February 2020.
Activity 4.6	**James Walton June 2019** Workshops with Directors and Cabinet required to examine further areas for savings in 2020/21
March 2020 update	This was completed and £14m of additional savings identified and approved by Council in February 2020. Next steps to be considered with learning from Covid-19 implications and therefore an interim Financial Strategy is targeted for June/July 2020.
Targeted outcome 5	The public are confident in the delivery of Council services.
Strategic Risk	High: Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need.
Activity 5.1	**Michele Leith November 2019** Communications strategy produced for review by Directors.
March 2020 update	One in place and currently under review following the engagement of an expert in the field to support the Council in improving its approach
Targeted outcome 6	**Commercial Strategy delivers outcomes that support the overall direction of the Council.**
Strategic Risk	High: Failure to deliver the Commercial Strategy prevents the Council from meeting the corporate outcomes.
Activity 6.1	**Mark Barrow June 2019** Commercial Strategy refresh. This strategy will be linked to the Capital Strategy.

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March 2020 update	Commercial Strategy update 2020-2023; approved by Cabinet February 2020
Activity 6.2	**Michele Leith / Tim Smith March 2020** Identify opportunities to operate in a more commercial way that are enabled by developments including new IT systems.
March 2020 update	HR advice has a growing business base, planning to build on last year's leadership conference once COVID is managed. IT and data working with commercial partners, completing work for ADASS[3] and developing service level agreements to support the STP[4] with roll out of office 365 and a digital road map.
Activity 6.3	**Michele Leith May 2019** Senior Leaders quarterly sessions to develop ideas for innovation into projects (ongoing)
March 2020 update	Document approved for a leadership approach and recast for last year to use the apprenticeship levee to get formal qualifications as cohorts plus session going forward
Activity 6.4	**Michele Leith September 2019** Conference focussing on Leadership and Digital taking place to showcase Shropshire, commercial services and to maximise income generation opportunities.
March 2020 update	See 6.2 above.

[3]Directors of Adult Social Services s

[4] Sustainability and transformation partnerships (STPs); were created to bring local health and care leaders together to plan around the long-term needs of local communities.

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Committee and Date	Item
Audit Committee	
31 July 2020	
1:30 pm	Public
24 September 2020	

ANNUAL ASSURANCE REPORT OF AUDIT COMMITTEE TO COUNCIL 2019/20

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

Attached to this report is the Audit Committee's Annual Assurance Report to Council for 2019/20. This provides Council with independent reasonable assurance that it has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains consistently.

2. Recommendations

2.1 Recommendations to Audit Committee

Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2019/20 before forwarding to Council with a recommendation to consider, comment upon and accept this report.

2.2 Recommendations to Council

Council is asked to consider and comment on the contents of the Annual Assurance report for 2019/20 before recommending accepting this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Audit Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change requirements or consequences of this proposal.

4. Financial Implications

There are no direct financial implications from this report. In assessing the internal control environment, risk management and governance aspects of the Council, the Audit Committee can provide a perspective on the overall value for money of these.

5. Climate Change Appraisal

Energy and Fuel Consumption; This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
Renewable Energy Generation; This report does not directly make decisions on renewable energy generation. Therefore, no effect.
Carbon offsetting or mitigation; This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
Climate Change Adaption; This report does not directly make decisions on climate change adaption. Therefore, no effect.

6. Background

6.1 A key part of the Audit Committee's role is to report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements. In addition, the Audit Committee should report to Council where they have added value, improved or promoted the control environment and performance in relation to its Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.

6.2 The Audit Committee has a well-established role within the Council and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 31st July 2020 has also been considered.

6.3 In addition, this report has been reviewed to ensure its continuing compliance with CIPFA[1]'s Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition. This requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to:

[1] The Chartered Institute of Public Finance and Accountancy.

Whether the;
- committee has fulfilled its agreed terms of reference;
- committee has adopted recommended practice;
- development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
- committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,
- what impact the committee has on the improvement of governance, risk and control within the Council.

6.4 The annual assurance report to Council for 2019/20, attached to this report, is an aid to addressing the key areas where the Committee should be held to account. **(Appendix A).**

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition Audit Committee reports 2019/20
Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee
Local Member N/A
Appendices Appendix A - Draft Audit Committee Annual Assurance Report 2019/20

APPENDIX A

AUDIT COMMITTEE ANNUAL ASSURANCE REPORT FINANCIAL YEAR 2019/20
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STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

1. Governance in and of the public sector continues to be high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. In Shropshire we have a Code of Corporate Governance which is reviewed annually in line with the best practice issued by CIPFA and SOLACE[2]; we have also produced an Annual Governance Statement, again in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives, and providing good service to our community.

2. Shropshire Council has an Audit Committee that is long established in seeking to maintain and improve our governance procedures. The Committee is a key component of the Council's corporate governance arrangements and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance.

3. The benefits to the Council of operating an effective Audit Committee are:
    - Maintaining public confidence in the objectivity and fairness of financial and other reporting.
    - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing and approving the Annual Statement of Accounts and the Annual Governance Statement.
    - Providing a sharp focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial reporting process.
    - Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable.
    - Providing additional assurance through a process of independent and objective review.
    - Raising awareness within the Council of the need for governance, internal control and the implementation of audit recommendations.
    - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.

4. The Committee continues to have a professional and arm's length relationship with Grant Thornton, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed.

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[2] Society of Local Authority Chief Executives

5. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Chief Finance Officer (Director of Finance, Governance and Assurance {Section 151 Officer}) in achieving our aims and objectives. We have put together a work and development plan for the year to enable key tasks to be considered and completed.

6. As Chair of the Audit Committee, I see training as a key priority for members to undertake our roles effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. Training has been received in relation to:
    - Single person discount council tax review
    - Programme assurance – what to look for
    - Cloud service – what does this mean for Shropshire Council and the Audit committee
    - New systems programme assurance for the Audit Committee;
    - CIPFA Statement on the Head of Internal Audit
    - Assurance on the process of identifying, monitoring and achieving savings to stay within identified budgets
    - Challenging officers on the systems within their area to deliver against the financial strategy …from a finance perspective and from a service perspective
    - Strategic risks including children and adults safeguarding
    - Treasury management

    Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, training events, and an informative web site and received various communication updates throughout the year on the following topics:
    - Champions of Fraud, National Fraud Initiative;
    - LGA A Councillor's workbook on bribery and fraud prevention (shared with all Shropshire Council Councillors);
    - National Audit Office (NAO) Round up for Audit Committees November 2019.
    - Local Authority Investment in Commercial Property

7. This year the Committee has held five planned meetings including the meeting held on 31st July 2020. A meeting planned for the 25th June was cancelled in responding to COVID19 changes to the financial framework for submitting and approving the financial accounts. We have received and considered a substantial number of reports across key areas of the Council's activity (see **Annex A**).

Audit Committee Membership and Dates of Meetings

8. Membership of the Audit Committee for 2019/20 was made up of the following Councillors: Peter Adams (Chairman); Brian Williams (Vice Chairman); Chris Mellings, Michael Wood and Ioan Jones.

9. Substitutes were invited to attend and contribute at all meetings and training.

10. Meetings of the Committee have been held on:
    - 23 July 2019;
    - 12 September 2019;
    - 5 December 2019;
    - 25 February 2020; and
    - 31st July 2020[3].

Details of Reports/Information Received

11. **Annex A** provides a summary of the key reports and information received by the Audit Committee at its meetings. These appear categorised in the areas which, under the Terms of Reference, Audit Committee have a responsibility to consider and report upon. They are:
    - Governance;
    - Risk management framework;
    - Controls, including specific focus on:
        - Contracts and partnerships
        - Fraud, corruption and whistleblowing
        - Value for money
    - Financial reporting and treasury management.

    A detailed audit work plan has been agreed for the current year.

12. Following receipt of the reports Audit Committee resolved that:
    - The Audit Committee resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.
    - The Audit Committee resolved that the risk management and assurance framework was fit for purpose and operating as intended.
    - The Audit Committee resolved that there is still a need in the current situation with pressures on resources and changes to major systems, to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, major contracts; commercial activities; commissioning, and achieving planned income levels especially during and following the Council's response to COVID19.
    - The Audit Committee resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).
    - The Audit Committee resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike.
    - The Audit Committee resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and

[3] Included because this meeting will cover the reports originally planned for the 25th June 2020 which was cancelled and the timetable for completion of the financial accounts extended following COVID19.

were prepared in accordance with International Financial Reporting Standards.

13. The Head of Audit has offered limited assurance for the 2019/20 year on the Council's framework for governance, risk management and internal control. There are an increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected. In addition to which, the response to the Coronavirus pandemic has led to scope limitations which restricts the independent assurances provided on the key systems that have undergone fundamental changes during the year. Where systems have been evaluated to a draft stage, assurances remain low. Management of Coronavirus has introduced unprecedented pressures and responses. Managers have been diverted onto business continuity pressures and unable to plan improvements to known internal control processes, leading to increased risks in some areas that will impact on delivery of the Council's objectives. 2019/20 has been a challenging year given the embedding of key fundamental line of business systems (financial and human resources) alongside the challenge to deliver savings, increase income and respond to Coronavirus.

Additional Responsibilities

14. Members of the Audit Committee and the Head of Audit and her staff are aware of the changing nature of local government in relation to the greater responsibilities for innovative practice allowed by the Government's Powers of Competence Act. We are aware that the Audit function has an essential and on-going role to play in monitoring the risks involved in the arrangements for strategic commissioning. Members continue to receive training in this extended aspect of their responsibilities, and the Head of Audit reports on the resources available in order to minimise any possibility of the risk of financial malpractice.

Audit Service Staff

15. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Head of Audit and her deputies, Principal Auditors: Katie Williams, Peter Chadderton and Barry Hanson.

16. Without the support of all Audit staff and of the officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. My thanks and that of my fellow committee members are given to all our Audit Service officers.

Annual Statement of Assurance

17. Based on:
    - The work carried out by the Internal and External Auditors and their reports presented to this Committee;
    - Reports from service managers and;
    - The work carried out by the Section 151 Officer, Head of Audit and their reports presented to this Committee.

The Audit Committee can provide reasonable assurance, founded on those reports, explanations and assurances received, that the Council has in place adequate and effective governance, risk management and internal control systems; internal, external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects.

RECOMMENDATION – Council is asked to accept this report

Signed …………………………………………. Date…………………………….
On behalf of the Audit Committee
Peter M Adams

ANNEX A

Summary of assurance reports received by Audit Committee

Governance

- **Management report; Annual Governance Statement (AGS) and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance**

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement. In addition, he reported on compliance with the Corporate Governance Code as reasonable.

- **Internal Audit – Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2019/20**

Report of the Section 151 Officer which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Audit Standards, compliance against which demonstrates an effective Internal Audit service. There are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. It was noted the report should be read in conjunction with the Internal Audit Annual Report.

- **Annual review of Audit Committee terms of reference**

Report of the S151 Officer which set out changes proposed in the Terms of Reference in respect of reflecting the Council's political balance.

- **Annual Audit Committee self-assessment**

Report of the Section 151 Officer which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements. Following the assessment Members have identified areas for future focus and refresh training sessions.

- **Internal Audit Charter**

Report of the Head of Audit which set out the requirement for an annual review of the Internal Audit Charter which had been completed and only a minor clarification change was proposed being the introduction, for clarity and completeness, of the Overall Assurance Opinion.

- **Draft Audit Committee annual work plan and future training requirements**

Report of the Head of Audit which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for members to ensure they were well informed and appropriately skilled to fulfil their role and drew members attention to the workplan and the proposed amendments. The only proposed change was for the Audit Committee and not Council to approve the final statement of accounts and accompanying documents at its meeting on 31 July 2020). It was agreed that the Audit Committee's Terms of Reference would be amended and a change to the Constitution sought to permit this.

- **Annual Assurance report of Audit Committee to Council 2019/20**

Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

The Audit Committee resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.

Risk Management Framework

- **Management report: Risk and Insurance Annual Report 2018/19**

Report of the Risk and Insurance Manager which set out the challenges and achievements accomplished by the Risk and Insurance Team during 2018/19. The Risk and Insurance Manager informed the meeting that the Emergency Planning Unit had recently been incorporated into the team, which had been renamed 'Risk, Insurance and Resilience Team'. She then drew attention to the 'good' assurance level achieved following a risk management audit. The Risk and Insurance Manager informed the Committee how the quarterly reviews of strategic risks were undertaken in order to ensure that risk levels were closely monitored. The Risk and Insurance Manager reported that an additional level of business continuity tactical plans were being developed for HR, Finance and Assets which were currently being finalised and would provide a corporate approach across these areas. She then drew attention to the Business Continuity exercise recently undertaken along with the week-long live exercise undertaken during Business Continuity week in May each year. Both the Risk and Insurance Manager and the Risk Management Officer answered several queries from Members in relation to the following strategic risks: Staffing, Work Related Stress, Failure to Safeguard Vulnerable Children/Adults and the Economic Impact of Brexit. The Risk and Insurance Manager explained that there were detailed risk profiles sitting behind each risk and reminded Members that if they wished they could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail In relation to Failure to Safeguard Vulnerable Children/Adults the Risk and Insurance Manager explained that the impact of the risk could be mitigated by having a lot of controls in place and this may well be the reason for the lower 'likelihood' score for Safeguarding Vulnerable Children. Members requested that both the Director of Children's Services and the Director of Adult Services be invited to the next meeting to discuss the risk profiles. This was completed at a training session.

- **Management report: Strategic risks update**

Reports during the year from the Risk and Insurance Manager set out the current strategic risk exposure. There were currently 17 strategic risks on the strategic risk register, which was an increase of one strategic risk relating to the effects of Climate Change, for which a Lead Officer had been appointed and was in the process of completing the risk profile. The Economic Growth Strategy risk had increased from low to medium because of the impact of Brexit on the economy being unknown at the time. The reputation risk had been reduced from high to medium however this had since been increased due to an emergency being announced within highways in relation to the number of potholes in the county. The risk score for Safeguarding

Children had also been reduced from high to medium following the recruitment of more social workers.

- **Internal Audit report of the review of Risk Management audit 2019/20**

Report of the Principal Auditor which summarised the detailed findings identified in the Internal Audit review of risk management of which the overall control environment had been assessed as Good, the highest rating that could be given.

- **Draft Internal Audit risk based plan 2020/21**

Report of the Head of Audit on the proposed risk based Internal Audit Plan for 2020/21. She drew attention to the summarised Internal Audit Plan which confirmed that 1,794 days had been planned for Shropshire Council audit work and 171 days for external clients. She also referred members to the Appendix, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan those low risk areas that would not be considered for review by Internal Audit on a rolling basis, to allow Members to consider first line assurances, if required, from managers on these areas.

- **External Audit: Informing the risk assessment**

Report of the Engagement Lead (Grant Thornton) which contributed towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The External Auditor drew Members' attention to the responses received from the Council's management to the questions raised on those areas where External Audit were required to gain an understanding of management processes and the Audit Committee's oversight of those areas. The Committee confirmed that they were comfortable with the management responses.

The Audit Committee resolved that the risk management and assurance framework was fit for purpose and operating as intended.

Controls

- **Management Report: Liquid Logic Project Review Update**

The Assistant Director of Adult Services introduced the report of the Director of Adult Services and confirmed that appropriate action had been taken to address the 6 recommendations (4 Significant and 2 Requires Attention) following the Audit review of Liquidlogic Adults Social Care System (LAS) Project which concluded that the current level of assurance was 'limited' and that the direction of travel was 'a weakening control environment'. Members were pleased that all recommendations had been taken on board however they did not agree that the management controls in place at the time of the audit were robust nor that the limited assurance level was due to the delay in providing information and documents to the Audit team.

- **Management Report: Children's Direct Payments Update**

The Head of Safeguarding reported the progress that had been made following the 2018/19 internal audit, the final report of which was issued in March 2019. The Service Manager informed the meeting that following a management review in June 2019, progress implementing recommendations had been made. Members raised concerns that the level of assurance had fallen from being good to limited with 17 areas of concern reported. The Service Manager explained that the service had been missing a key post for a significant amount of time which had finally been filled in December 2018, following which, the system control weaknesses in this area were strengthened. A further progress report was planned and received in February 2020. The Interim Assistant Director of Children's Social Care and Safeguarding informed Members of the progress made to address the recommendations. She informed the Committee that both an Interim Service Manager and a Short Breaks Reviewing Officer had been appointed. She drew attention to the progress made against the Action Plan and confirmed that only five actions remained outstanding. She reported that development and implementation of the all age payment service was progressing and was being overseen on a bi-monthly basis by the Strategic Board.

- **Management report: Digital Transformation Programme (DTP) Update**

Report of the Director of Workforce and Transformation on the progress and outcomes to date of the Digital Transformation Programme, delivery to date, lessons learnt and the progress in moving to business as usual.

- **Third line assurance report: Highways Term Maintenance Contract**

Report of the Head of Audit provided members with the key findings following a review of the Term Maintenance Contract and the actions that management were taking.

- **Management report – Highways Term Maintenance Contract**

The Director of Place and Enterprise provided Members with an update on progress of the Action Plan following the audit undertaken to review payment mechanisms for the Highways Term Maintenance Contract, he reported a positive direction of travel.

- **Management Report: Commercial Strategy Update**

The Assistant Director Commercial Services explained that the 'Hopper' process was an assessment method used to appraise proposals coming forward with potential commercial prospects. An investment fund of up to £40m had been identified to help deliver additional revenue. Following a review of all proposed projects, three were currently being delivered, three had been approved by Council and others in the pipeline required further appraisal. The Assistant Director Commercial Services addressed the issue of the revision of the target to deliver a minimum of £5m of new revenue income down to £2m in the revenue budget. He explained that it had been recognised that the Council had not been on course to achieve £5m in this financial year and it had therefore been accepted that £2m would be a more realistic target. He reported that work was currently being undertaken to demonstrate how the savings target of £2m as set out in the Financial Strategy would be achieved.

- **Management Report: Theatre Severn update**

Report of the Interim Head of Culture and Heritage Services following several Internal Audit reports and investigations that identified control weaknesses across the Theatre's operations that were reoccurring, Members were provided with management progress against internal control weaknesses to date in the following areas:

- Theatre Severn Audit (Limited)
- Theatre Severn Chip and Pin (Unsatisfactory)
- Theatre Ticketing and Online Booking (Limited).

➢ **Internal Audit performance report and revised annual audit plan 2019/20**

Report of the Head of Audit which provided Members with an update of the work undertaken by Internal Audit throughout the year. By mid-July she informed Members that 35% of the revised plan had been completed reporting four good, nineteen reasonable and seven limited and four unsatisfactory assurance opinions had been issued and the 34 final reports contained 360 recommendations, two of which were fundamental in relation to Brockton CE Primary School and Legionella. The Head of Audit highlighted those areas where Audit had added value in the delivery of work and reported that the number of lower level assurances to date (32%) was slightly lower than for the previous year (33%).

By mid-November 2019 the revised plan was on target for 90% completion. The Head of Audit drew attention to the audit recommendations and the decrease in the higher levels of assurance along with a corresponding increase in unsatisfactory assurances and explained that it was too early to say whether the reviews to be undertaken in the final quarter would reveal a risk to the internal control environment, but she confirmed that it was an early indicator as to the direction of travel.

At her February 2020 update the Head of Audit informed members that 79% of the revised plan had been completed; There had been minor revisions to the plan and in total, 18 final reports had been issued. There had been 12 good or reasonable assurances accounting for 66% of the opinions delivered, which was a slight decrease compared to the previous year. This was offset by a corresponding increase in limited and unsatisfactory assurances up from 33% in the previous year to 34% this year. Turning to Direction of Travel, the Head of Audit cautioned that the lower level assurances and the higher proportion of areas attracting unsatisfactory and limited assurances were an early indication of a weakening control environment. Members expressed concern at the direction of travel.

➢ **Internal Audit annual report 2019/20**

Report of the Head of Audit on achievements against the revised internal audit plan for 2019/20 and the annual internal audit assurance. The Head of Audit gave limited assurance for the 2019/20 year that the Council's framework for governance, risk management and internal control is sound and working effectively. She explained that there are an increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected. In addition to which, the response to the Coronavirus pandemic has led to scope limitations which restricts the independent assurances provided on the key systems that have undergone fundamental changes during the year. Where systems have been evaluated to a draft stage, assurances remain low. Management of Coronavirus has introduced unprecedented pressures and responses. Managers have been diverted onto business continuity pressures and unable to plan improvements to known internal control processes, leading to increased risks in some areas that will impact on delivery of the Council's objectives. 2019/20 has been a challenging year given the embedding of key fundamental line of business systems (financial and human resources) alongside the challenge to deliver savings, increase income and respond to Coronavirus.

The Audit Committee resolved that there is still a need in the current situation with pressures on resources and changes to major systems, to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, major contracts; commercial activities; commissioning, and achieving planned income levels especially during and following the Council's response to COVID19.

Controls: Fraud, Corruption and Whistleblowing

- **Fraud, special investigation and Regulation of Investigatory Powers Act (RIPA) update (Exempted by categories 2, 3 and 7)**

Members are provided with exempt reports of the Principal Auditor providing an update on the current fraud and special investigations undertaken by Internal Audit and current RIPA activity.

- **Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative**

Report of the Head of Audit provided which outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and an update to members in response to national and local issues. It was confirmed that no changes were being proposed to the existing strategy.

- **Annual Whistleblowing report**

Report of the Director of Workforce and Transformation on the number of cases raised through the whistleblowing process over the last year and the actions resulting.

The Audit Committee resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).

Controls: Value for Money

- **External Audit: Shropshire Council audit findings 2018/19**

Report of the Engagement Lead (Grant Thornton) on key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2019. He advised that most of the financial statements had been completed and he anticipated that an unqualified opinion would be given.

- **External Audit: Audit plan**

Report of the Engagement Lead (Grant Thornton) setting out the plan for the year ending 31 March 2020 for Shropshire Council in relation to the Council's financial statements and to satisfy themselves that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources**.**

- **External Audit: Pension fund audit plan 2019/20**

Report of the Engagement Lead (Grant Thornton) setting out the Pension fund plan for the year ending 31 March 2020.

- **External Audit: Audit fee letter 2019/20**

Report of the Engagement Lead (Grant Thornton) setting out the audit fee for the year ending 31 March 2020.

The Audit Committee resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike.

Financial reporting

- **External Audit: Shropshire County Pension Fund (Information) 2018/19 letter 2018/19**

Report of the Engagement Lead (Grant Thornton) summarised the findings for the year ended 31 March 2019 on the audit of the Pension Fund financial statements He drew attention to the to the unadjusted misstatements set out in the report but confirmed that an unqualified opinion would be given.

- **External Audit: Audit progress report and sector update**

Report of the Engagement Lead (Grant Thornton) which highlighted the progress made on work undertaken during the year and summarised the emerging national issues and developments of relevance to the Council. Members' attention was directed to the progress to date on the audit delivery and he confirmed that External Audit continued to meet with officers as appropriate. In relation to the Annual Certification Letter, it was confirmed that any matters arising from this work going forward would be clarified in the letter. In December, the Engagement Manager highlighted emerging risks and the approach to the Council's Value for Money Conclusion and explained that a detailed risk assessment would be undertaken following discussions with the Chief Executive and the Chief Financial Officer.

- **External Audit: Annual audit letter 2018/19 Shropshire Council**

Report of the Engagement Lead (Grant Thornton) which summarised the key findings arising from the work carried out for the year ended 31 March 2019. The Senior Manager introduced the report and drew attention to the unqualified opinion given on the Council's Financial Statements and those for Shropshire County Pension Fund along with the Value for Money Conclusion for 2018/19.

- **Financial outturn report 2019/20**

Report from the Section 151 Officer providing details of the revenue outturn position for the Council and the full year capital expenditure and financing of the Council's capital programme.

- **Approval of the Council's Statement of Accounts 2019/20 including a review of accounting policies**

Report of the Section 151 Officer on the draft Annual Statement of Accounts and the accounting policies.

Treasury Management

- **Annual treasury report 2018/19**

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for the year and including the investment performance of the internal treasury team to 31 March 2019. He reported that the Internal Treasury Team had outperformed their investment benchmark by 0.29% and that performance over the last three years was 0.29% per annum above benchmark delivering an underspend of £5.061 million. This was mainly due to a review of the Minimum Revenue Provision policy. He also drew attention to the significant levels of ongoing savings and one-off adjustments and highlighted the minimum reporting requirements for the review and scrutiny of the Council's treasury management policy and activities undertaken by Audit Committee before being reported to full Council for approval

- **Treasury Strategy 2019/20 mid-year report**

Report of the Section 151 Officer which provided an economic update for the first six months of 2019/20; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2019/20.

- **Treasury Strategy 2020/21**

Report of the Section 151 Officer which proposed the Treasury Strategy for 2020/21 and the recommended Prudential Indicators for 2021/22 to 2022/23.

The Audit Committee resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.

Shropshire Council

Committee and Date	Item
Audit Committee 31 July 2020	 Public

EXTERNAL AUDIT: Fee Scale for the Audit 2020/21 and update 2019/20

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

The Audit Fee Letter attached at **Appendix A** identifies the audit fee for the 2020/21 audit and update 2019/20.

2. Recommendations

The Committee is asked to consider and endorse, with appropriate comment the Audit Fee Letter.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The external audit of Shropshire Council end of year accounts produces an independent opinion, intended to provide reasonable but not absolute assurance, that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or consultation requirements or consequences of this proposal.

4. Financial Implications

4.1 The audit fee for Shropshire Council for 2020/21 is £103,061, unchanged from last year.

4.2 The audit fee for Shropshire County Pension Fund is £22,289 and was reported to the Pensions Committee in March 2020 and will be charged to the Pension Fund.

5. Climate Change Appraisal

Energy and Fuel Consumption; This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
Renewable Energy Generation; This report does not directly make decisions on renewable energy generation. Therefore, no effect.
Carbon offsetting or mitigation; This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
Climate Change Adaption; This report does not directly make decisions on climate change adaption. Therefore, no effect.

6. Background

6.1 Grant Thornton were appointed as External Auditors for Shropshire Council following a procurement process undertaken by Public Sector Audit Appointments Ltd (PSAA – a company established by the Local Government Association) in 2017. The contracts cover a five year period commencing with the audit of the 2018/19 accounts. PSAA has an option to extend the contracts by a further two year period to seven years in total. Grant Thornton undertake end of year audits for Shropshire Council and Shropshire County Pension Fund.

6.2 PSAA set the fees independently and consulted on the 2020/21 Scale of Fees in early 2020 and published the final document on their website. In it they explain that the audit fee is set at the same level as for 2019/20, however, may not remain at that level for most, if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit. The scale fee includes the audit of financial statements, work to reach a Value for Money conclusion and work on the whole of government accounts return.

6.3 The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published, the PSAA will be able to consider the impact of the new requirements in more depth and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

6.4 Given that local circumstances are key to determining the assessment of risk and the audit work required, the PSAA encourages where applicable, early dialogue with Grant Thornton to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. and all fee variations are required to be approved by PSAA before they can be invoiced.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee
Local Member N/A
Appendices Appendix A – Fee Scale for the Audit 2020/21 and update on 2019/20

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30 April 2020

By email **Email** generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

PSAA, 18 Smith Square, London, SW1P 3HZ
www.psaa.co.uk Company number: 09178094

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website (Scale fee document). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	**Scale fee for the audit 2019/20**
Shropshire Council	£103,061	£103,061

As well as the Scale of Fees document, we have also produced a Q&A which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the Statement of Responsibilities. This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website (Fee variations process). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive

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External Audit Plan update

Shropshire Council
Year ending 31 March 2020

6 May 2020

Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Shropshire Council ('the Authority') as reported in our Audit Plan we presented to the Audit Committee (those charged with governance) on 25 February 2020.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

Impact on our VfM approach

In our audit plan (presented to those charged with governance in February 2020) we advised that we were in the process of completing our initial VfM risk assessment. During the interim period, we have determined that a review of the Authority's financial sustainability would be appropriate for the basis of our VfM opinion and have therefore identified this to be a significant VfM risk. The Covid-19 pandemic presents a new set of challenges to the Authority with regards to its VfM arrangements and we are therefore further updating our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment in addition to consideration of the Authority's overall financial resilience. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

Value for Money update

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:

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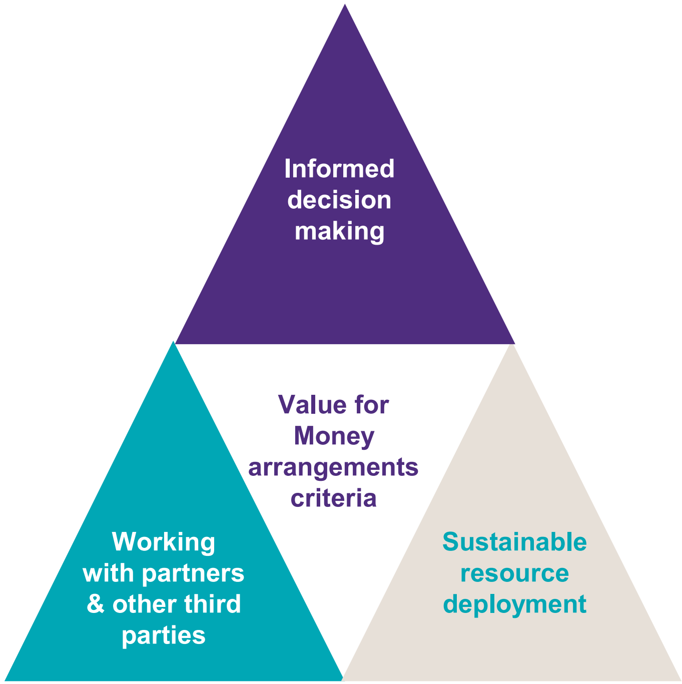

Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Financial Sustainability

In common with the Local Government sector as a whole, the Authority is under increasing funding pressure and, as a result, is facing a challenging savings target which presents a number of potential issues with regard to ensuring appropriate This is further complicated by the issues arising as a result of the Covid 19 pandemic.

We will continue to meet with senior management to consider how the financial pressures are being managed on an ongoing basis. We will also discuss working arrangements during the Covid 19 pandemic, with a particular focus on the following;

- the reprofiling of planned expenditure to meet changing demands;
- oversight of additional funding provided both to the Authority and on an agency basis;
- and governance and data security arrangements during a period of widespread remote working.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Informing the audit risk assessment for Shropshire Council 2019/20

Richard Percival
Director
T 0121 232 5434
E Richard.d.percival@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Shropshire Council's external auditors and Shropshire Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Shropshire Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	The COVID-19 pandemic that has hit the UK since March is anticipated to have an impact on some of the figures quoted within the financial statements. This is particularly the case with asset valuations where there has been little market evidence on which to base opinions of value, and so the figures quoted have less certainty that would normally be the case. The COVID-19 pandemic has also impacted on equity markets around the world which will have impacted on pension asset values, and finally an estimation of debt impairment has been made to reflect the potential impact on collection rates for the Council's debts.
2. Have you considered the appropriateness of the accounting policies adopted by Shropshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies have been reviewed. The only slight amendment to accounting policies is within the Non Current Assets – Property, Plant and Equipment which highlights that assets are subject to a revaluation on a minimum of every five years, however in the intervening years we now perform an annual desktop review to update the valuation held in the balance sheet.
3. Is there any use of financial instruments, including derivatives?	The Council holds financial assets and liabilities in the general running of the Council but does not use derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	No

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No, all impairments that we are aware of have been reflected in the Draft Statement of Accounts.
6. Are you aware of any guarantee contracts?	No new guarantee contracts have been provided in 2019/20.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Contingent liabilities that the Council is aware of have been detailed within the Draft Statement of Accounts. No further contingencies or un-asserted claims have been identified.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Shropshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council in the main utilises the EMLawshare framework to source external legal support (unless specific circumstances dictate otherwise). The firms on that framework that have been used by the Council are as set out below. Where relevant, an indication has been given as to where those firms are assisting with litigation and matters disclosed by way of contingent liabilities: Bevan Brittan - various Browne Jacobsen – various and assistance with Local Government Ombudsman complaint Sharpe Pritchard – various and assistance in planning judicial review proceedings Weightmans - various Anthony Collins – various and Kier contract dispute negotiations. In addition the Council has instructed Andrew Uprichard (sole practitioner). The Council has also instructed Gowlings solicitors to assist with general waste management and bereavement services contract advice and assistance given their knowledge and expertise as a result of advising on the original contracts for those specific service areas.

General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None identified
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has sought out general advice for a variety of service areas over the course of the year which will include general advice specifically around capital programme schemes. Other areas where specific advice has been sought relates to Highways Management, review of Leisure Services, the implementation of Cornovii Developments Limited and the Shopping Centre developments.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Shropshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Shropshire Council's management.

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Fraud risk assessment

Question	Management response
1. Have Shropshire Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	Fraud risks are identified by Internal audit in their audit plan, and fundamental systems which feed the statement of accounts are reviewed on a risk basis to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Counter fraud risk assessment reported to Audit Committee December 2019 listed the following areas as high and medium High • Housing benefits Medium • Payroll, fraudulent travel, expense, overtime and timesheets • Pension continues after death • Employee commits benefit fraud • Inappropriate and incorrect contract awards • False invoicing • Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action • Theft of cash • Council tax discounts • NDR reliefs • Parking abuse including blue badge use/disabled parking • Direct payments / personal budgets • Property and taxi licenses • Schools diversion of resources

Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Shropshire Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Yes, but not of a material nature and levels are very low, all are investigated and outcomes reported to Audit Committee regularly. Directors receive a quarterly briefing which also outlines the internal controls required for improvement as a learning from any such allegations once investigated. System managers receive a report directly and sign up to implementing internal control improvements within an agreed timeframe.
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Shropshire Council where fraud is more likely to occur?	See 2 above.
5. What processes do Shropshire Council have in place to identify and respond to risks of fraud?	• Risk assessment • Vigilant staff with regular training accessible on an electronic system • Reminders to staff • Regular updates to managers and members regarding learning from investigations • Networking with other key counter fraud bodies and organisations • Counter fraud work in internal audit and other parts of the organisation • Counter fraud, anti-bribery and corruption strategy and practices • Full details available in annual Audit Committee report on Counter fraud and anti-corruption strategy, latest December 2019

Fraud risk assessment

Question	Management response
6. How would you assess the overall control environment for Shropshire Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Reasonable Code of Governance assurance Limited Internal Audit year end assurance, some limitations have been placed on the scope of some of the key financial audits, the largest being Payroll. The scope for the Payroll audit was constrained responding to the Service needing to focus on pure business activity, prior to the Coronavirus pandemic. The Payroll Service was suffering from resource pressures at the year end with single points of failure and unable to engage with Audit fully. The advent of Coronavirus then impacted on the availability of officers running other financial systems and saw staff diverted to respond to front line pressures under business continuity plans. Given the timing of the Audit and the impact of Coronavirus, management comments were being provided for Payroll as this report was being drafted but not with some of the other key systems. Where this is the case, management have committed to review the internal controls once resources allow and hope to achieve this in the next six months, but if not, the process will be revisited with the Head of Audit Plans in place and outlined in the AGS to target continuous improvement. Controls are built into every system operating across the Council at all levels.
7. Are there any areas where there is potential for misreporting?	Not aware of any.

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Fraud risk assessment

Question	Management response
8. How do Shropshire Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation. Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. No significant issues have been reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Posts are risk assessed by service areas with the support of HR and where identified as politically restricted, or requiring DBA checks comply with approved processes. Systems and processes are designed with separation of duties; access controls; recruitment checks, training and induction plans, etc. to ensure that risks are minimised and managed regardless of the post holder.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No. Potential conflicts of interest are declared at public and private meetings. Officers in specialist roles also declare any conflicts to ensure their work programmes can be planned around these. Employee and Member Codes of Conduct specify clear processes for this.

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Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Potential fraud risks are assessed across the Council and activities in place to mitigate these. These are reported annually to the November/ December Audit Committee. In addition, every Committee meeting has an update report on frauds, special investigations and RIPA activity in which the internal controls that led to the activity are considered and reported upon. Managers receive reports and agree to implementing improvements to reduce the opportunity for repeat frauds, etc going forward therefore improving the control environment.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Any complaints of this nature are dealt with under the approved policy and the outcome is reported to the Monitoring Officer and Audit Committee.
13. Have any reports been made under the Bribery Act?	No.

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Shropshire Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

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Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Shropshire Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place. The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2019/20.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.

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Impact of laws and regulations

Question	Management response
5. What arrangements does Shropshire Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Shropshire Council? What was the outcome of that assessment?	Yes it has considered this particularly against the COVID-19 pandemic financial pressures and the uncertainty on the longer term financial funding picture from the Government, which is addressed within the Council's Financial Strategy and the outcome is that the going concern principle can still be applied.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Shropshire Council's Business Plan and the financial information provided to Shropshire Council throughout the year?	The Draft Statement of Accounts refers to management reports that have been made during the year, and highlights future financial position of the Council as outlined in the Council's Financial Strategy. The Financial Strategy considers the financial assumptions for the Council over the short, medium and long term. Each year an exercise considers the robustness of estimates and the adequacy of reserves and provisions which provides assurance to members that the Council's budget plans have been based on the best available information and assumptions. This also provides Audit Committee and Scrutiny Panels, as well as Cabinet and Full Council, the opportunity to comment upon and challenge the approaches taken and implications highlighted. Financial monitoring during the course of the year evaluates any variations from budget plans set out in the Financial Strategy and Budget Book, and also considers the effects that any variance has on the Council's General Fund Balance. This is monitored on a monthly basis and the implications and impacts for future years are updated within the Financial Strategy.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Strategy considers any policy or legislative changes affecting the Council in the short, medium and long term and identifies any financial implications arising from such changes and the Council's plans for mitigation.
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Although assumptions are regularly challenged by the Audit Committee, no such issues have been raised.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Financial monitoring has not identified any such adverse financial indicators. An overspend (within accepted tolerance levels) has occurred during 2019/20, for the first time in many years, however the action taken by the Council to reduce the potential overspend pressure during the year highlights that financial performance is monitored and addressed promptly by the Council.

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Going concern considerations

Question	Management response
6. Does Shropshire Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	The Council have the relevant expertise to deliver the Council's strategy and objectives. Despite the on-going voluntary redundancy programme, arrangements have been made to retain appropriate experience. The Council also has a performance review process in place to identify any skill requirements within the staff base and identify appropriate training and support in addressing any gaps in knowledge.
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	There are a number of financial reports prepared during the course of the year that allow the Council to consider its ability to continue as a going concern. These include budget monitoring reports, financial strategies and the statement of accounts report.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No events or conditions have been identified.

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Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit Committee ? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	The Audit Committee consider a number of financial reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council whether public or exempt. The Audit Committee receives the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final Statement of Accounts, officers provide an overview highlighting key matters in the accounts and again providing opportunity for queries. Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority.

Related Parties

Issue

Matters in relation to Related Parties

Shropshire Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Shropshire Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. What controls does Shropshire Council have in place to identify, account for and disclose related party transactions and relationships ?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers/officers and members requiring confirmation that they read and understood the declaration requirements and stating details of any known related party interests. The Council's related parties include Central Government; organisations on which it is represented by members including West Mercia Energy and Shropshire Fire and Rescue Service; and entities which are controlled or significantly influenced by the Authority which includes ip&e Ltd, Cornovii Developments Limited, SSC No.1 Ltd, Jersey Property Unit Trusts for the Shrewsbury Shopping Centres, the Shropshire County Pension Fund and Shropshire Towns and Rural Housing.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Shropshire Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

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Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes –see Appendix 1 below.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Full valuation involving an inspection is carried out a minimum of every 5 years. A desktop valuation review is carried out to update valuations annually to the Balance Sheet date. Other assets are valued on the basis of depreciated replacement cost for specialised properties where there is no market-based evidence of fair value. Depreciated historic cost is used for vehicles, plant and equipment. Historic cost is used for infrastructure, community assets and assets under construction.	Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Use Property Services (RICS valuer) for	Valuations are made in-line with RICS guidance –reliance on expert. Assumptions are set out in valuer's report.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	The following useful lives have been used in the calculation of depreciation: Council Dwelling – componentised depreciation, using a straight-line basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years. Other Land and Buildings – average 10 to 60 years range. Vehicles, Plant, Furniture & Equipment –average 5 years. Infrastructure –average 40 years	Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.	Use District Valuer for Council Dwellings. Use Property Services (RICS valuer) for buildings valuations. Other assets considered by Property Services Manager and capital accountant	The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis .	Consistent application of depreciation method across all assets	No.	The asset is not depreciated until it is available for use and each significant part of property, plant and equipment is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the previous December's house price statistics published by ONS. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets	Use Property Services (RICS valuer) for buildings valuations	Valuations are made in-line with RICS guidance.	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	Central support costs are apportioned to services based on an agreed criteria.	All support service costs centres are allocated according to the agreed allocation.	No	Apportionment bases are reviewed annually.	No
Measurement of Financial Instruments	The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts).	Take advice from finance professionals where appropriate.	External Treasury advisors & PWLB	Take advice from finance professionals and external Treasury advisors.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year –where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing. The finance team obtain the aged debt listings for the sales ledger and the aged debt lists for Council Tax, HRA rents and business rates to calculate the provision.	Outstanding debt informs management judgement.	N/A	Consistent proportion used across aged debt as per the Code.	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No.	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No.
Non Adjusting events – events after the balance sheet date	Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	The Section 151 Officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (the Unitary Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercer. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Shropshire Pension Fund.	The Council are provided with an actuarial report by Mercer (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Finance Lease Liability	The operators financial model is used as the basis for calculating the liability.	The operators financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No.	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No.

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Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2020

31 July 2020

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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We received your draft financial statements on 10th July 2020 and have begun our work on these statements.

In February we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30th September 2020.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 25 February 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. In May 2020 we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Details of our initial risk assessment to determine our approach is included in our Audit Plan update.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 30th September 2020.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/

Progress at July 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2019/20 claim is underway and we plan to be able to complete our work by the original deadline of 30 November deadline. Although it should be noted that, in response to the impact of the Covid-19 pandemic, the DwP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit Committee in our Certification Letter early in 2021.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

We also certify the Council's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). We have yet to receive from MHCLG guidance for the certification work for the 2019/20 return.

Meetings

We met with Finance Officers in February as part of our regular update meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. This included our Financial Reporting Workshop in February, which helped ensure that finance teams were up to date with the latest financial reporting requirements for local authority accounts. We are currently running a series of webinars on the impact of the Covid19 pandemic on local authority financial reporting.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

COVID-19 Update

Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- we will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of impact in annual report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements:

- the Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020.
- for principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Audit Deliverables

2019/20 Deliverables	Actual and Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan (and update) We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements. Plan addendum	February 2020 and May 2020.	Complete
Audit Progress and Sector Updates We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	July 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the September Audit Committee.	September 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

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The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

We shared the report with your officers and discussed relevant issues with them in a timely manner.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Nondomestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf

Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that "aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19."

The NAO report notes "Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for."

The NAO comment "This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

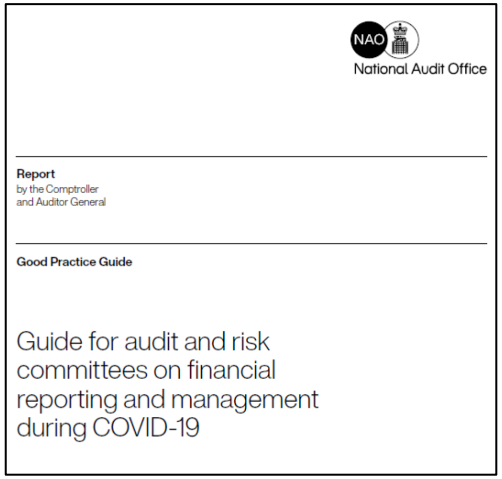
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period."

The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/



Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

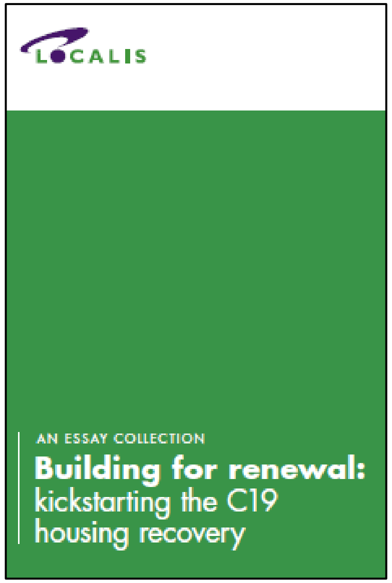
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

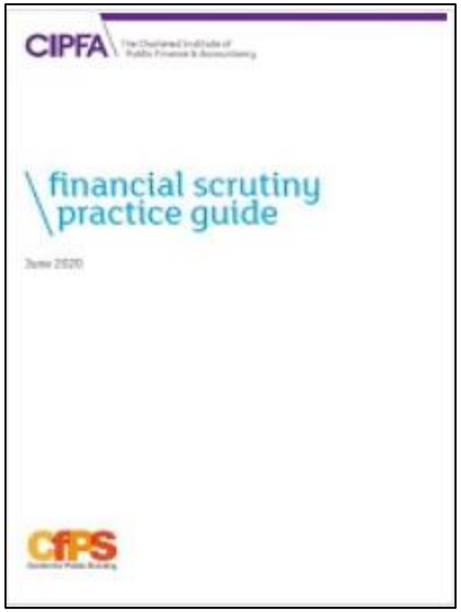
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

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Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.

The full report can be obtained from the PSAA website:

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Grant Thornton

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External Audit Plan

Year ending 31 March 2020

Shropshire Pension Fund

19 March 2020

Contents

Your key Grant Thornton team members are:

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [insert name of organisation]. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • management override of controls • the revenue transactions include fraudulent transactions (this is rebutted, please see page 5) • valuation of level 3 investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £19m (PY £18m) for the Pension Fund, which equates to roughly 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.95m (PY £0.933m).
Audit logistics	Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £22,289 (PY: £20,039) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the CCG until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. In addition to this, there is considerable economic uncertainty as a result of the coronavirus. The Pension Fund will need to ensure that it's investment strategy has considered potential outcomes of both these issues.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

- The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.
- Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan and is subject to PSAA agreement.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Shropshire Pension Fund.	Therefore we do not consider this to be a significant risk for Shropshire Pension Fund
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and custodians • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

4. Other matters

Other work

The Pension Fund is administered by Shropshire Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

5. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

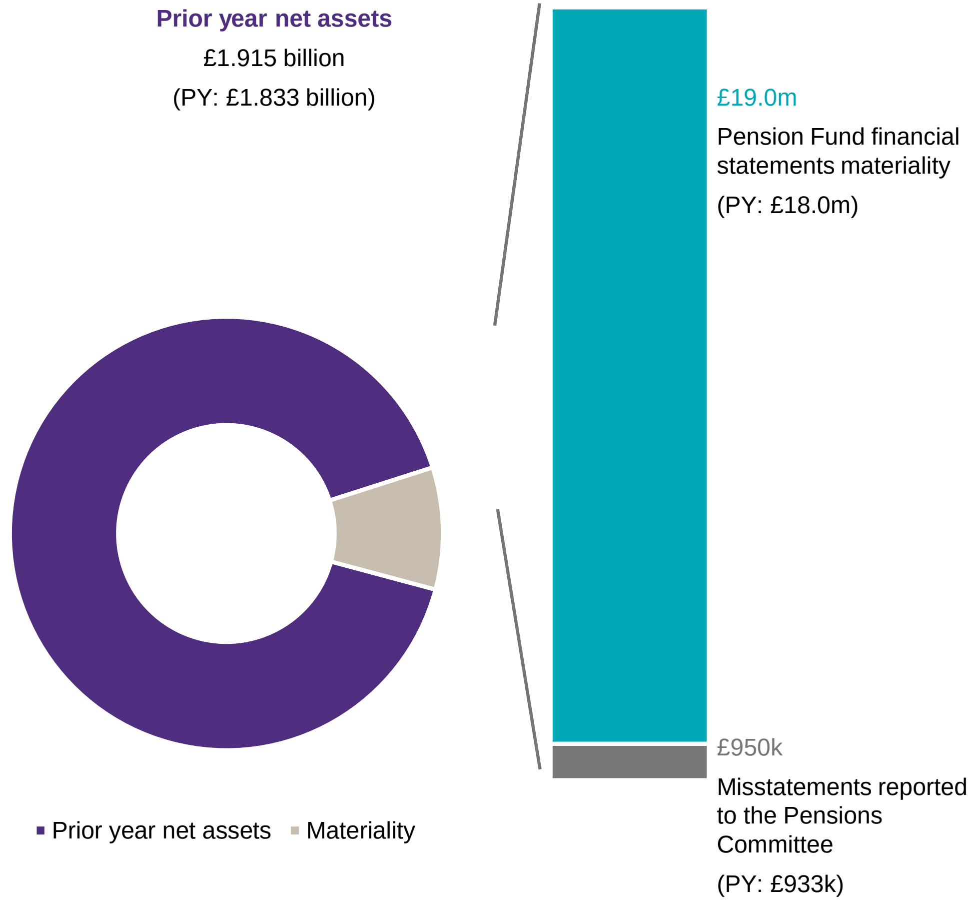
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £19.0m (PY £18.0m) for the Pension Fund, which equates to 1% of your prior year net assets for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

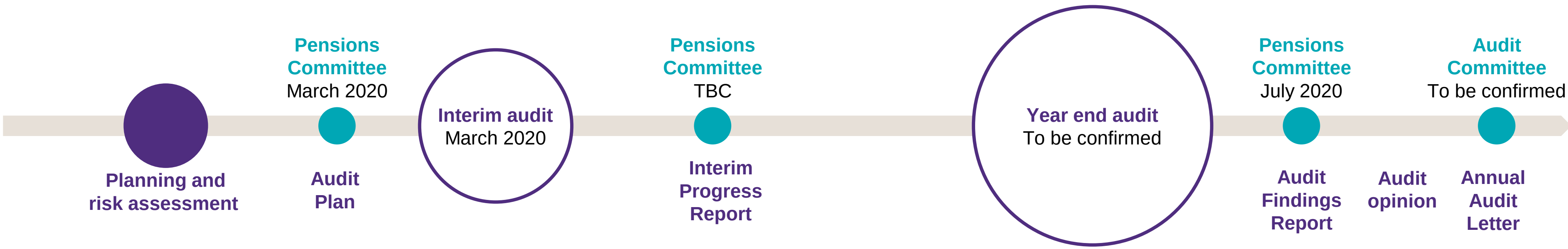
Matters we will report to the Pensions Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £950k (PY £933k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee to assist it in fulfilling its governance responsibilities.



6. Audit logistics & team



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Richard Percival, Key Audit Partner

Richard's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Pension Fund.

Terry Tobin, Senior Audit Manager

Terry's role will be to be a key contract with the senior management and the Pensions Committee.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

7. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	23,427	18,039	18,039
Additional fees	0	2,000	4,250
Total audit fees (excluding VAT)	**23,427**	**20,039**	**22,289**

Assumptions:
In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	18,039	
Raising the bar	2,800	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,450	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	**22,289**	

8. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Service	£	Threats	Safeguards
Audit related:			
	Nil		
Non Audit:			
Provision of IAS 19 Assurances to Scheme Employer auditors	3,000	None	We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. Our estimate is that the fee for this will be £3,000. `

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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External Audit Plan update

Shropshire Pension Fund
Year ending 31 March 2020

6 May 2020

Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Shropshire Pension Fund ('the Fund') as reported in our Audit Plan dated 19 March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We will however liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We have not identified any changes to our materiality assessment as a result of the risk identified due to Covid-19

Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions: and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations. • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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